BANKING

JOURNAL OF THE AMERICAN BANKERS ASSOCIATION

Housing Coordination

PAGE ONE

DECEMBER 1935

The Reserve Board Tests the Brakes

Architectural Anarchy

Restless Bank Advertising

The Value of Well Known Directors

PAGE ONE

New Orleans

IN THE words of the new President, Robert V. Fleming, president of the Riggs National Bank, Washington, D. C., the 61st Annual Convention of the American Bankers Association demonstrated "a spirit of confidence in the fact that the bankers are willing to do everything they can to stimulate the recovery of the nation."

It was a cheerful Convention. The bankers came to New Orleans realizing that although a number of pressing questions had not yet been answered, other problems and challenges had been successfully met. They went back to their jobs with a clearer conception of what remained to be done.

The Convention speakers, from the platform and at group round-tables, did not hesitate to criticize certain aspects of the national recovery program, as, for example, Government spending and the unbalanced Federal budget. But the basic theme of the entire program was confidence, and the bankers seemed predominantly optimistic.

*

Headlines

In the frank discussion of important issues certain high lights stand out. There was Governor Eccles' assertion that Government aid had been responsible for breaking the depression and his remarks about the nation's ability to carry the deficit which has been the price of that intervention. In the speech of Lewis H. Brown, president of Johns-Manville Corporation, the bankers heard the opinion that the country's greatest problem was "whether the cost of government is going to increase until it absorbs all of our national income so that there is no field whatever left for private enterprise." Government spending, Mr. Brown asserted, "is the greatest competitor that business has for the citizen's dollar." Taxes increase costs and selling prices of all products, thus tending to limit markets, decrease output and restrict employment.

R. S. Hecht, retiring President of the Association, recalled the work done by the bankers in connection with the Banking Act of 1935. The Government's emergency activities, he said, were palliatives and "should not be used on a permanent basis lest they become a drug, but should be done away with gradually now that the patient is definitely on the road to recovery."

*

1936

President Fleming in his inaugural remarks sketched briefly his plans for the coming Association year. This program, which Mr. Fleming discusses more fully in an article on page 36, is to emphasize regional banking conferences, with special attention to the promotion of public relations.

*

The New Officers

The Association officers who will serve with Mr. Fleming are: Tom K. Smith, president, Boatmen's National Bank, St. Louis, as First Vice-President; Orval W. Adams, executive vice-president, Utah State National Bank, Salt Lake City, as Second Vice-President; and Arthur B. Taylor, president, Lorain County Savings and Trust Company, Elyria, Ohio, as Treasurer.

*

Money

The United States mints have been working this year at twice the rate of 1934, which, in turn, was the most active year since 1919. The output has consisted mostly of dimes, nickels and pennies, and the increased demand is explained by sales taxes and increased retail buying.

*

Profit

Operating profits of the R.F.C. up to November 1 aggregated over $110,000,000. The amount, no doubt, is far more than sufficient to cover operating losses on loans, but the corporation's business has reached the stage where it is evident that ultimate liquidation will be a long drawn out process in which losses can be avoided only by much canny patience.

*

Security

It is estimated by authorities familiar with the situation that the new social security system will ultimately put at least 10,000 people on Government payrolls. Manifestly the system will mean security for some citizens, even if it is at the expense of the rest.

*

Optimism

Under Secretary of Agriculture Tugwell is of the opinion that the Federal Government can satisfy every humanitarian demand and still balance the budget by 1938. This, of course, depends largely upon definitions of humanitarian demands and balancing the budget; but any way the matter is regarded it suggests an optimism commensurate with current Federal expenditures.

(CONTINUED ON PAGE 5)

HOUSING COORDINATION

Peter Grimm, Assistant Secretary of the Treasury, will coordinate the several Federal agencies operating in the field of housing and mortgage financing. Among these are the Federal Housing Administration, the Home Loan Bank System, including the Home Owners' Loan Corporation, the Federal savings and loan associations, the Public Works Administration, the Emergency Housing Administration, the Emergency Relief Administration, and, to some extent, the Department of Agriculture. In this work, Mr. Grimm will be known officially as Assistant Director of the National Emergency Council, which is headed by Frank C. Walker

HARRIS & EWING

CUSHING

TRADE

THE Resolutions Committee of the American Bankers Association reported to the New Orleans Convention that the prevailing business sentiment in the country is optimistic and confident. The largest gains have occurred in retail trade

•

Bank management articles and subjects in this issue: $1,000 Plus Interest; It Might Have Been Prevented; Automobile Financing; Real Estate Mortgages; Control of Expenses; Operating Equipment; Service Charge Survey; Interest on Savings Accounts; Earning Trends; Advertising; Bank Directors; Trust Investments; Housing Progress.

BANKING

JOURNAL OF THE AMERICAN BANKERS ASSOCIATION

DECEMBER 1935

Volume XXVIII No. 6

Published monthly by the American Bankers Association at 22 East 40th St., New York City. Fred N. Shepherd, Editor and Publisher; William R. Kuhns, Managing Editor. Assistant Editors, William P. Bogie and John L. Cooley; L. E. Lascelle, Business Manager. Field representatives, Alden B. Baxter, Advertising Manager, and Prentiss Jackson, Jr., 22 E. 40th St., New York City; Robert W. Kneebone, 230 N. Michigan Ave., Chicago, Ill.; R. J. Birch & Co., Los Angeles and San Francisco, Cal. Washington office, 708 Colorado Building. Subscriptions: $3 yearly; Canada, $3.36; foreign, $3.72; single copies, 25 cents. Entered as second-class matter May 5, 1909, at the Post Office at New York, N. Y., under the Act of March 3, 1879. Additional entry at Concord, N. H.

(CONTINUED FROM PAGE 1)

Paying Out

Repayments of home loan indebtedness in the United States during the current year are estimated at $415,276,000, carrying hundreds of thousands of owners entirely out of the red so far as their homes are concerned. In discussions of debts and debtors it is always well to remember that the vast majority of creditors have continued to pay out during the whole business depression.

*

Cost

The Department of Commerce estimates that the cost of the business depression in this country up to the end of 1934 was $26,631,000,000. The exact figure is rather intriguing, especially the odd million. As an estimate of what business took from its surplus or other savings, however, the total is interesting if not convincing.

*

Earnings

According to Comptroller O'Connor, national banks had a deficit of $139,780,000 or 8.91 per cent of their capital in the fiscal year 1932; in 1933 the deficit was $218,384,000, or 14.39 per cent; in 1934 the deficit was $303,546,000, or 17.46 per cent, while in the year ending June 30 last there was a profit of $71,372,000, or 3.93 per cent, and the profit was almost wholly earned in the current calendar year.

*

Foreign Funds

The continued flow of jittery foreign funds in the form of gold to the United States means, among other things, a continued increase in foreign purchase of American securities, increased foreign deposits in American banks, or both. Present indications are that short term investments in our markets by foreigners have increased by at least a billion dollars during the current year. Time was when this might have been a good thing, but that time is passed. Foreign funds here at the present time may boost security prices, but they also have the unfortunate effect of helping reduce the return on investments.

*

Excess Reserves

The excess reserves of member banks will probably show some decreases in the next few weeks as currency flows into the Christmas trade. The great bulge will come after the holidays, and it will be tremendous.

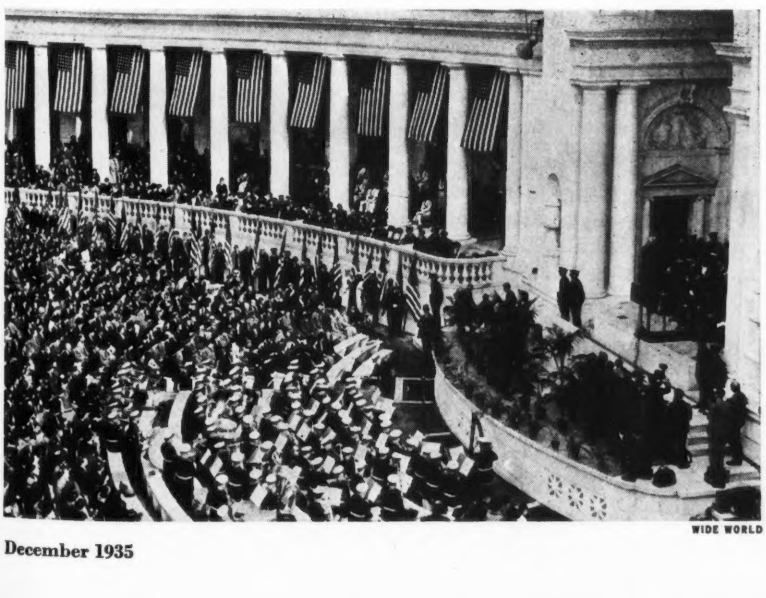
*

Elections

Recent votes on bond issues by states and municipalities resulted in approval of many projects, especially in connec-

RECIPROCITY

Referring to the U. S.-Canadian trade agreement which had just been drawn up, President Roosevelt said in his Armistice Day speech that it would "eliminate disagreement and unreasonable restrictions, and thus work to the advantage of both Canada and the United States." He said: "Each has much to gain by material profit and increased employment through the means of enlarged trade, one with the other."



WIDE WORLD

tion with public works enterprises supported by Federal grants, but there was a very considerable number of outright rejections. It is evident that there is popular disapproval for continued unlimited expenditures by various governments, national and local.

*

Warning

Investors are being warned by several national organizations concerned in investment matters that since recent business gains have been based largely upon active trade in the southern and western states, and since this activity has been substantially developed by artificial means through Federal expenditures, there is danger of reaction and that values apparently justified by present business activity in certain sections may not be justified when business assumes a more normal phase. There is hope, perhaps expectation, that business activity through the country will soon equal that of the favored districts and that all of it may be upon a natural and permanent foundation, but the exercise of considerable common sense and good business judgment is required if investors are not to be nipped in the irregular business improvement now going on.

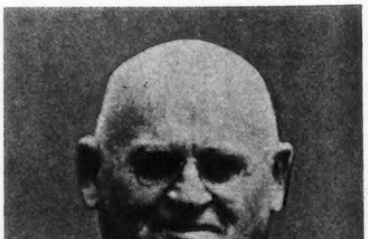
*

New Capital

New capital issues during 1935 to date are low in comparison with boom

BUYING POWER

Believing that employment must be spread without reducing buying power, W. K. Kellogg, cereal manufacturer, put workers at his plant on a 36-hour week, gave them an average wage increase of 12.5 per cent, and guaranteed unskilled labor $4.50 a day



WIDE WORLD

NAVAL RATIOS

Secretary of the Navy Swanson, right, made preparations during the month for this country's representation at the coming London naval conference. Participants will be the United States, Great Britain, France, Italy and Japan. At the left, the British ambassador, Sir Ronald Lindsay

years but register a marked improvement since the low point in the depression. Total issues in the first 10 months of the year are placed at a little over $3,900,000,000, of which $1,850,000,000 were corporate. Of the latter, flotations of $363,000,000 were for new money, the rest measuring the great refunding movement made possible by current low interest rates. Ease of refunding no doubt has contributed largely to the increase in new money issues, but as a matter of fact ease in floating sound issues of any sort is no longer in question. What is lacking to bring the new capital market back to normal activity is more demand. Although such demand is gradually increasing, the rate of increase is not as impressive as it might be.

*

Simplification

The Federal Reserve Board has been reported as seriously considering the proposal to fix margins for loans by banks on securities on the basis of a percentage of the market value of the securities rather than upon the present complicated "two prong" system of brokerage and bank control. It is unlikely that any such change would materially affect the volume of stock market transactions, but any change tending to simplify machinery and procedure will receive due commendation by both banks and their market clientele.

Relief

Six states—Florida, Georgia, Nebraska, North Carolina, South Carolina and North Dakota—have contributed nothing to the relief of unemployed. Admitting that local communities in these states have done much toward cooperating with the Federal Government, the fact remains that there is something wrong with a system which calls upon the Government of the United States for expenditures which ought to be made solely on a local basis.

*

Low Stocks

Shelf stocks of merchants on an average are reported as very low. Consumption has kept pace with production and there is a rapid turnover of goods in most lines of business. Although hand to mouth buying has its disadvantages, it at least has the merit of involving no danger of a glut of goods to drag upon merchant and manufacturer in case there is a check in the present course of active buying.

*

Reciprocity

There may be those who are opposed to reciprocal tariff relations between the United States and Canada, but advocates of trade barrier reductions are encouraged by the general acclaim over the new agreement.

One thing which made the agreement

possible is the fact that under the blanket power given the President the arrangement need not be ratified by the Senate.

*

Cotton

As a result of a sharp upturn in the offtake of cotton mill production, mills on an average report their output sold for three months ahead. However, many of them say profits are meagre or entirely lacking, and some report that taxes this year will amount to 14 per cent of overhead.

*

Strain

Late reports of the Bank for International Settlements show little change in assets and liabilities other than a trend to turn assets more and more into gold bars as if in anticipation of a strain. Unfortunately, there can be little doubt as to whence a strain is likely to come. The doubt lies in the question of how far war danger will go and to what it will lead.

*

Stock Values

The market valuation of all shares listed on the New York Stock Exchange increased by over two and a half billion dollars during October. Between April 1 and November 1 the increase was over twelve billions. This looks very good and, in fact, is good. But it may be well to remember (CONTINUED ON PAGE 10)

UTILITIES

That the Utility Holding Company Act was unconstitutional in its entirety was the ruling of Federal Judge William C. Coleman of Baltimore on November 7, in the first Federal court decision on the much disputed law

WIDE WORLD

Send for FREE book

IT'S A helpful handbook of store front facts. Contains complete information about Pittco Fronts: price data; "before and after" photographs of actual Pittco-remodeled properties everywhere; and in many cases, statistics on business improvement, increased revenues, etc., due to Pittco-remodeling. Send the coupon for your free copy of this valuable book . . . today.

Pittsburgh Plate Glass Company,
2321A Grant Building, Pittsburgh, Pa.

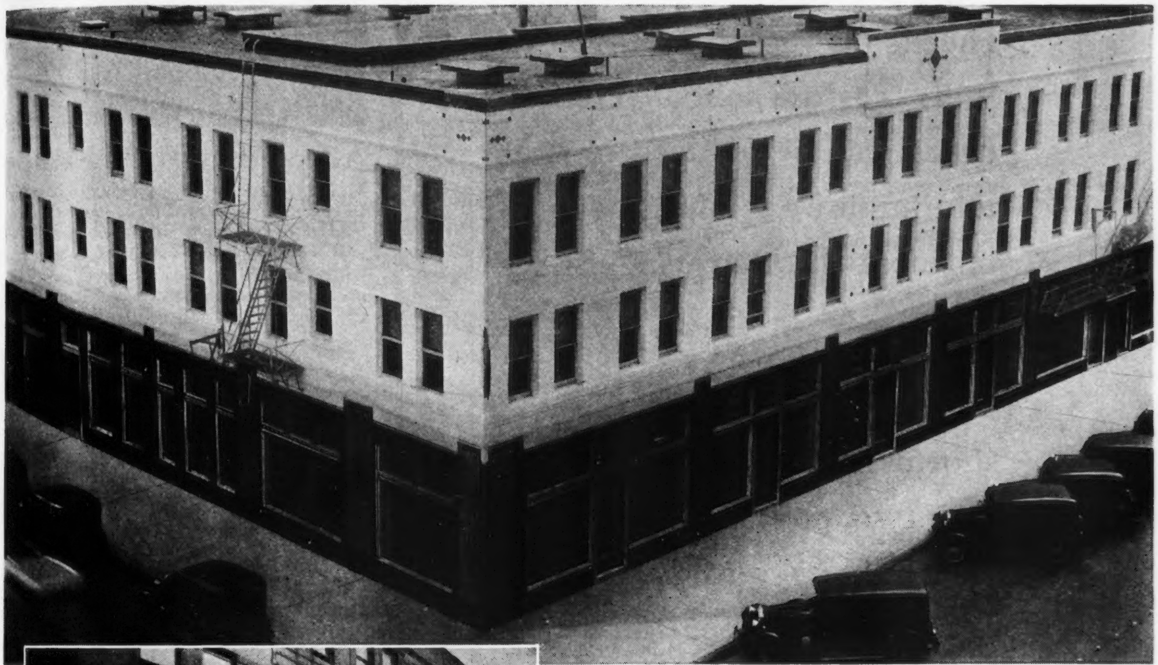
Please send me, without obligation, your new book entitled "How Modern Store Fronts Work Profit Magic".

Name ______________________________

Street ______________________________

City ____________________ State ____________

MAIL THIS COUPON . . . TODAY!



FOR TEN YEARS *the first floor of this well-located property in Houston, Tex., lay vacant and unproductive. Then it was remodeled with new Pittco Store Fronts. Many applications for leases were immediately received, and today all the stores are rented profitably. The trust officer of the local bank in charge of the remodeling says, "We are very well pleased with the success we have had in renting these stores. There is little doubt that the attractiveness of the store fronts has had much to do with our accomplishments in this direction."*

ARE outmoded, unproductive commercial properties a problem in your trust or real estate department? If they are, we suggest you investigate the advantages of remodeling these unproductive properties with new Pittco Store Fronts. Banks from coast to coast have found that modern, inviting Pittco Fronts work wonders in renewing and increasing revenue, in making properties easier to rent or sell. The example shown on this page of the profitable modernization by a trust department of a vacant, unproductive property, is just one of many which might be cited to show the advantages of Pittco Store Fronts. Why not retain an architect to design new Pittco Fronts for your unproductive properties? Our staff of experts will render him every assistance in design and installation.

Carrara Structural Glass

Pittco Store Front Metal

Pittsburgh Mirrors

PITTCO STORE FRONTS

glass... metal... paint

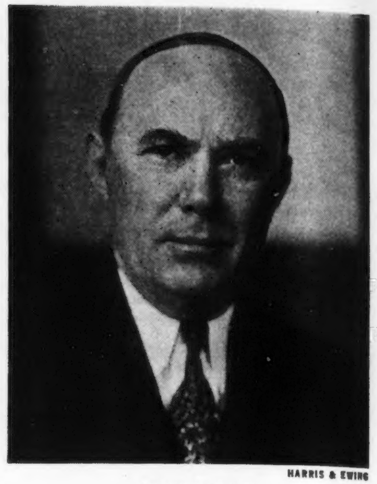
PRODUCTS OF

PITTSBURGH PLATE GLASS COMPANY

Pittsburgh Paint Products

Polished Plate Glass

Tapestry Glass



HARRIS & EWING

INVITATION

Major George L. Berry, Coordinator for Industrial Cooperation, has invited leaders of industry and labor to confer with each other in Washington December 9 regarding the action that "will most effectively promote and stabilize the well-being of industry in the United States"

•

that there are many stocks listed on the Exchange. The total increase represents about nine points in the price of the average stock.

*

Relief

One by one most of the states have been removed from the direct relief rolls and one by one they have been put into touch with the $4,800,000,000 work relief roll. The country may get a little something out of the work done under the work relief program. Otherwise work relief is a relief rose under a new name.

*

Devaluation

Germany is haunted by a fear of further devaluation of the mark in spite of industrial activity exceeding that of most of her neighbors. War preparations may keep a people busy but they cannot make a nation prosperous.

*

Repayments

Up to November 1 the Reconstruction Finance Corporation had received repayment of 54 per cent of all loans made since its organization, but the Government continues to absorb the repayments in allocations for new purposes. In the four months of the fiscal

year ending on October 31 the corporation had paid out about $45,000,000 of new money as compared with net repayments of over $106,000,000 in the same period last year.

*

Profits

Several Government credit agencies report substantial profits on their operations. This promises well for the Treasury, but it is not so certain that it speaks as well for American business in general. A profit to the Government secured to the disadvantage of private investors and business interests is not much of an aid to recovery.

*

Farm Credit

Total farm credit outstanding in the governmental agencies under the Farm Credit Administration at the end of September amounted to $3,319,097,808. The significant fact, however, is that this sum represents an increase of less than $14,000,000 in September, including the tail endings of the farm mortgage refunding.

*

Secret

The more or less secret movement of certain leaders in the House of Representatives toward cutting expenditures of the Federal Government with a view to balancing the budget is significant, but it will be futile for the reason that they are attacking Government expenditures which are least subject to attack. A movement to bring expenditures for unemployment relief within more reasonable limits would aim at the right target, although it would probably be quite as ineffective as the movement now being made. However, the budget will be settled in the White House and the Treasury, and not on Capitol Hill.

*

Silver

The statesmen who have insisted upon "doing something for silver" have done so much that they have pushed the bottom out of the bucket. Students of the financial situation of China and other white metal nations have realized that it was only a matter of time until the unnatural prices forced by this Government's buying policy would lead to demonetization in some form. But few, perhaps, anticipated that the action would mean the complete abandonment of hard money and a turn to a managed, inconvertible, paper currency in China, with the result that she will no longer be in the market for monetary silver. Rather, she will be compelled to sell from her present stock to maintain the new currency unit in relation to other currencies.

The upshot will be that ultimately China's immense stores of silver will find their way into our Treasury where they will lie indefinitely.

OLD SETTLERS

Before the Social Security Act can be administered, the Bureau of the Census will make a detailed study of population figures to determine what persons are eligible for benefits. Below is part of a battery of filing cabinets where cards bearing this information will be indexed and cross-indexed. These cabinets are in the Bureau's St. Louis offices

ACME

BANKING
JOURNAL OF THE AMERICAN BANKERS ASSOCIATION

DECEMBER 1935

The Reserve Board Tests the Brakes

By EDWARD H. COLLINS

IN an article entitled "Short Term Credit", written for this magazine 18 months ago, the present writer undertook a survey of the possibilities of bank credit inflation, on the one hand, and the mechanism available, on the other, for combating such inflation should it arise.

"Monetary inflation," said the writer at that time, "is strikingly similar to fire in its behavior. A spark can ignite it, and once under way, given favoring conditions, it can quickly become a conflagration. Where inflation hazards exist, they should, like fire hazards, be eradicated insofar as it is possible. If, however, such a course is not immediately possible or not immediately desirable, then we should at least ask ourselves whether, in the event of inflation, we have the necessary apparatus to keep it within reasonable bounds."

The passage of a year and a half has not altered this problem basically, but it has seen it assume a distinctly more important place in the public consciousness and public discussion. Thus, Charles R. Gay, president of the New York Stock Exchange, took occasion in an address before the American Management Association on October 9, last, to point to the danger of inflation that lay in the glut of easy money. While in no sense alarmist in his remarks, Mr. Gay seemed to wish to make the public realize that the problem of preventing a repetition of the stock market boom of the late Twenties was essentially a problem of credit control, and that its solution, in the last analysis, rested with the Board of Governors of the Reserve System. James M. Landis, chairman of the Securities and Exchange Commission, echoed these same views the following day.

What has happened to raise this question of credit control from the realm of more or less academic discussion to the status of a public issue?

The key to the changed public attitude toward the question is to be found, perhaps, in an observation made by Benjamin M. Anderson, jr., in the course of an address before the Investment Bankers Association at White Sulphur Springs, October 30. Mr. Anderson was discussing the problem of controlling the excess reserves of the banks, and he said:

"Credit expansion is not an automatic consequence of excess reserves. In times of depression, reserves can pile up and money rates can continue to drag on the ground. . . . But when borrowers are in a mood to borrow and there is a confident tone, then bank expansion can move with extraordinary rapidity, as we saw in 1924 and 1927. . . . An increase in member bank reserves of $600 millions sufficed to support the enormous credit expansion of the seven years preceding the disaster in 1929."

A year and a half ago, when the writer last discussed this question here, excess member bank reserves amounted to nearly $1,700,000,000. Today, however, they have risen from that total to slightly more than $3,000,000,000, or, roughly, five times the amount which Dr. Anderson reminds us was sufficient to produce the country's great series of inflationary booms, in the years 1924–1929. This is a terrific and totally unprecedented surplusage of bank reserves. It means that the member banks have enough margin to expand their deposits by $30,000,000,000 in addition to the $35,000,000,000 at which they now stand. That would mean $65,000,000,000 in deposits, all told, or not far from double the volume outstanding at the high point of the great boom year 1929, when the total was approximately $38,000,000,000.

Staggering as is this figure of excess reserves, however, it does not alone explain the recently awakened consciousness of the possibilities of renewed credit inflation. Obviously, if the only ingredient required for such an explosion was volume of reserves it might have been almost as real a threat a year and a half ago as it is now. For after all, $1,700,000,000 in excess reserves would have been more than enough, if touched off by a renascence of speculative fever or by a substantial renewal of business confidence, to produce a tremendous credit expansion. Actually, four circumstances must be taken into account in considering the present widespread discussion of "the excess reserve problem". These are:

1. The expansion of reserves itself.

2. The fact that this expansion has now continued for the last two years *without the deliberate assistance of the central banking authorities.*

3. The return of speculative and business confidence, as reflected (a) in the first genuine "bull market" in stocks since the depression, and (b) in the first sustained business recovery.

4. The continuing Federal budget deficits.

Enough has been said about the total to which reserves have mounted, and the credit expansion that would be possible on this huge base of reserves. Let us turn, therefore, to the other factors in the situation.

One frequently hears it said that the present total of excess reserves in the banking system is the result of the deliberate easy money policy of the Reserve authorities. This is not the case at all. Up to two years ago the Reserve System was an active buyer of Government securities in the open market for the purpose of making money cheap. But if one will look at the weekly reports of the System since October 1933 he will find that its Government portfolio has been stationary since that time, at a little more than $2,400,000,000. When the Reserve authorities decided that they had cheapened money sufficiently, and got out of the market for Governments, excess reserves stood at $800,000,000. Up to that time the Reserve authorities alone were responsible for the fact that the money market was under heavy pressure from surplus reserves.

SHARPLY TO THE FRONT

"The third reason why the excess reserve problem has come sharply to the front in recent months is to be found in the vastly changed speculative and business picture. The stock market advance of 1935 has had all the appearance of a genuine bull market, and in duration it has exceeded twice the span of any of its predecessors." Below, the Securities and Exchange Commission—James D. Ross, Robert E. Healy, Chairman James M. Landis and George C. Mathews

Today, however, not only are the Reserve authorities doing nothing to create new reserves, but they no longer are responsible even for the $800,000,000 excess reserves that they built up in the depression and the early days of recovery. How, it may be asked, can this be the case? It is the case for this reason: When the Reserve ceased to build up member bank reserves the latter were large enough to support, not only the $27,000,000,000 of deposits then outstanding, but another $8,000,000,000 as well. Today, chiefly as a result of the influx of gold into this country, on the one hand, and the financing of the Government deficit on the other, deposits have risen by just about $8,000,000,000; hence, that additional credit-creating power which resided in the $800,000,000 excess reserves of late 1933 has been completely used up.

The truth is that the $3,000,000,000 increase in excess reserves has come about not only without any help from the Reserve authorities, but in the face of a steady rise in deposits which, under normal circumstances, would be calculated to tighten up the money situation. It has been due almost entirely to the tremendous increase in the country's gold stocks, an increase which has carried these stocks from $4,243,000,000 in early 1933 to within easy striking distance of the $10,000,000,000 level.

Here we have a factor which must be set down as belonging definitely on the disturbing side. Under normal conditions the volume of bank reserves is dictated by Federal Reserve policy. When it is dictated by extraneous factors it is obvious that the Reserve's problem is additionally complicated.

The third reason why the excess reserve problem has come sharply to the front in recent months is to be found in the vastly changed speculative and business picture. The stock market advance of 1935 has had all the appearances of a genuine bull market, and in duration it has exceeded twice the span of any of its recent predecessors. On November 18, as a matter of fact, it celebrated its eighth consecutive month. In this eight months' period alone security

HARRIS & EWING

GOVERNOR ECCLES

HARRIS & EWING

CHARLES R. GAY

WIDE WORLD

"Charles R. Gay, president of the New York Stock Exchange, took occasion . . . to point to the danger of inflation that lay in the glut of easy money. While in no sense alarmist in his remarks, Mr. Gay seemed to wish to make the public realize that the problem of preventing a repetition of the stock market boom of the late Twenties was essentially a problem of credit control, and that its solution, in the last analysis, rested with the Board of Governors of the Reserve System. James M. Landis, chairman of the Securities and Exchange Commission, echoed these same views . . . "

prices have risen about 20 per cent, while the aggregate rise in the stock market averages since the bottom of the depression has now been about 50 per cent.

As for business, that has come along equally well. Indeed, the steady advance of the stock market has for the most part been clearly predicated on the conjunction of the two factors of cheap money and returning corporate earnings. It is not necessary here to recapitulate the business improvement, which has now carried industrial production, as measured by the Reserve Board, back to 90 per cent of the pre-depression normal of the years 1923–1925. The point that it is important to stress for our present purposes is that both speculative sentiment and business sentiment have definitely improved in recent months. And, as Dr. Anderson and others have pointed out, it is this condition of affairs which raises the problem of excess reserves from the academic to the practical.

There remains the fourth point to touch upon, namely, the continuance of the recent series of national budget deficits. With the general desirability or undesirability of the Administration's financial program the present article is not immediately concerned. Such an article would be incomplete, however, if it did not call attention to the fact that the budget deficit adds one more complicating factor to the excess reserve problem. For obviously, to the extent that the adoption of a tight money policy would tend to embarrass the Treasury in financing its expenditures, to just that degree must the psychological pressure on the Reserve authorities to vacillate in the performance of their duty be increased.

But all of the above belongs on the dark side of the picture. What of the other side?

The other side of the picture may be summed up by saying, first, that thus far credit inflation is purely potential; second, that if the possibilities for inflation have become more real in the last 18 months, at the same time the methods for controlling it have been increased.

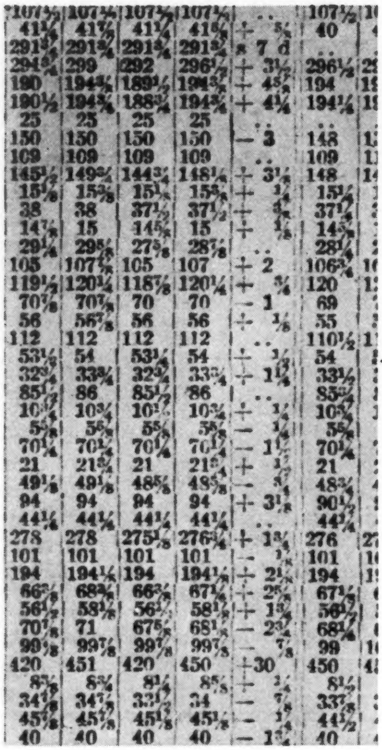
The statement that credit inflation still is potential rests on the observation that brokers' loans—the accepted measure of security market inflation—are down $50,000,000 from a year ago, while commercial loans—the measure of commercial credit inflation—are down by $39,000,000. It should be interjected here, however, that the present situation, with the Government the dominating factor in the money market, is far from a normal one. As has been pointed out above, member bank deposits are steadily rising, due to the spending of the Government and the return of the proceeds to the banks in the form of private deposits.

Up to the time of the depression the three standard methods of controlling credit inflation were: (1) the rediscount rate, (2) open market operations and (3) moral suasion.

Two of these admittedly do not figure conspicuously in the outlook for controlling any credit inflation that might develop in the months and years just ahead. They are the rediscount rate and "moral suasion". The rediscount rate is of course useless at a time when the member banks are out of debt at the Reserve banks. Moral suasion proved ineffectual in the stock market boom of 1929, and has been supplanted, since then, by devices of a more coercive nature. The efficacy of open market operations at the present time is at least debatable. Viewed from a purely mechanistic standpoint it would be useless for the Reserve to sell Governments in the market, since even after it had disposed of its $2,400,000,000 the member banks would still have excess reserves of $600,000,000. However, many students of banking believe that the very fact that the Reserve had become a seller of Governments would act as a damper on credit over-expansion. It would be necessary, this school holds, for the Reserve to sell very few securities.

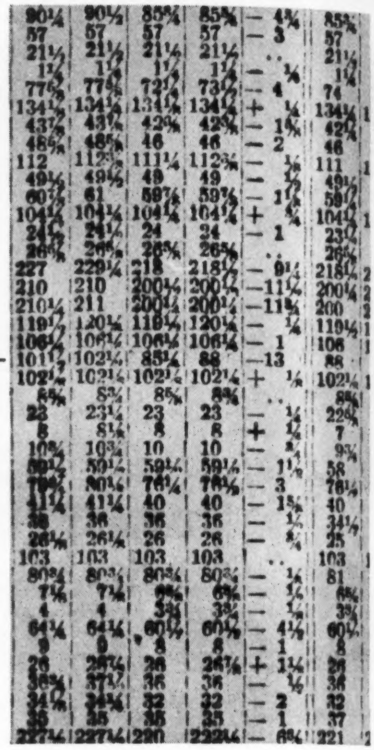
When the machinery for controlling credit expansion was examined a year and a half ago here, it was pointed out that in the Banking Act of 1933 the following additional powers had been lodged with the banking authorities:

1. Whenever in the view of the Federal Reserve Board any member bank is making undue use of bank credit for "speculation, carrying or trading in securities, real estate



Left—Typical market early in September 1929, with gains predominating

A few weeks later



Right—Devastating declines were the rule in the last two months of 1929

". . . there is no question that the banking authorities have been vested with powers which, if they are invoked at the right time, are ample to protect the country against a credit conflagration."

or commodities", it may suspend that bank from the facilities of the System. (Section 3)

2. The Board is empowered to fix, from time to time, the amount that may be lent by member banks for speculative purposes, that amount to be determined in relation to the amount of the bank's capital and surplus. (Section 7)

3. If a member bank is in debt at a regional bank and continues to lend for speculative purposes in the face of warnings against such practice, all advances of the regional bank shall become at once due and payable. (Section 9)

4. The Board of Governors of the Federal Reserve System is now a party to any conversations or understandings reached between any regional bank and any foreign banks. (The significance of this provision lies in the fact that the easy money policy of 1927 was attributed to the efforts of the New York bank to ease the situation for the Bank of England. Thus, certain members of the Reserve Board made it difficult for the latter body to operate a centralized control over the money market.)

5. Whenever any director or officer of a member bank violates the law or otherwise pursues unsound policies in the face of warnings from the Board, the latter may remove him from office.

These are rather sweeping powers, but they have been supplemented in the last few months through provisions in the Securities Exchange Act of 1934 and the Banking Act of 1935.

The chief mechanism provided by the Securities Exchange Act consists in placing in the hands of the Board of Governors of the Reserve System the power to raise and lower margin requirements for trading in the stock market. A sliding scale of margins was introduced about a year ago to control the lending of brokers to customers. This arrangement is now in process of elaboration to apply to banks lending on stock exchange collateral. This second step follows complaints by brokers that they have been at a competitive disadvantage with the banks in their lending operations.

The Banking Act of 1935 does two things, so far as this question of credit control is concerned:

1. It strengthens the Reserve Board and makes it more independent. It does this, first, by raising salaries and lengthening the term of office; second, by removing from the Board the Secretary of the Treasury and the Comptroller of the Currency, who up to now have been *ex-officio* members.

2. It gives the Board of Governors, on the affirmative vote of not more than four (of the seven) members, power to change the reserve requirements of the member banks.

To sum up, then, the status of this problem of credit inflation, we may draw off these general conclusions: Though credit inflation still remains potential rather than actual, the rise in speculative and business activity has made it a much more immediate and real problem than it was when these factors were dormant. However, there is no question that the banking authorities have been vested with powers which, if they are invoked at the right time, are ample to protect the country against a credit conflagration. It is now a question not of whether the control apparatus exists but of whether the banking authorities will recognize the signs of incipient inflation when they see them, and, if seeing them, they will dare certain public opprobrium by putting that apparatus to work.

By HAROLD F. KLEIN

Earnings of Large and Small Banks

TUCKED away in the voluminous statistical reports published by the Federal Reserve authorities may be found figures which point to the somewhat startling conclusion that the American banking system as a whole has earned practically no net profits since 1928—that is, up to the beginning of the current year.

Consolidated figures for all Federal Reserve member banks show that gross losses charged off in the years 1929–1934 inclusive consumed approximately 99 per cent of aggregate net operating earnings and recoveries during the same period. These banks accounted for between 73 and 83 per cent of the total commercial banking resources of the United States in the period in question, and it may be reasonably assumed, in the absence of statistics, that other banks on the whole did not show appreciably different results.

While these significant figures throw into bold relief the problem of banking losses and their effect on the ability of banking as a business enterprise to show net profits, it may well be argued that the losses growing out of the great banking crisis and its aftermath of readjustments are "water over the dam" and hence interesting only as a matter of history, rather than for their relevancy to the present and future of banking.

At the same time, however, the magnitude of recent losses has inevitably drawn attention to the very pertinent question as to whether current operating earnings of banks are adequate to build up proper reserves against such losses as may occur in the future and still leave at least something for stockholders in the way of dividends.

It is well known that lower interest rates on loans and investments and a shrinking demand for sound credit have cut down the gross revenues of banks by about 50 per cent since 1929, and that widespread reductions in rates of interest paid on deposits and rigid operating economies have barely kept pace with shrinking revenues. The result has been that net operating earnings have been reduced 50 per cent or more in most banks in the past six years, and it is out of operating earnings, in the long run, that reserves for losses must be built up.

What is not so generally known, however, is the fact that banks of various size-classes show widely differing results from their operations. Much light is cast on the essential differences between large and small banks, in the matter of earnings, by the excellent tables compiled by the Federal Deposit Insurance Corporation and published in its annual report for 1934. These tables, which provide the material quoted below, relate to all insured state banks which operated throughout the year 1934, numbering a total of 8,313 and including both members and nonmembers of the Federal Reserve System. They may be considered an adequate sample of the American banking system, since they comprise about 54 per cent of the total number of banks and about 44 per cent of total deposits, and include banks of all sizes and located in all states of the Union.

The number of banks in each size-class is shown below:

SIZE-CLASS BY TOTAL DEPOSITS	NUMBER OF BANKS
$100,000 and under	1,203
$100,000—$250,000	2,587
$250,000—$500,000	1,902
$500,000—$750,000	739
$750,000—$1,000,000	446
$1,000,000—$2,000,000	728
$2,000,000—$5,000,000	405
$5,000,000—$50,000,000	259
Over $50,000,000	44

The first conclusion which may be drawn from the analytical tabulations relating to these banks by classes is that *the ratio of gross earnings to deposits or to total available funds tends to decrease as the size of the bank increases.* The table below illustrates this dominant trend:

SIZE-CLASS BY TOTAL DEPOSITS	RATIO GROSS OPER. REV. TO TOTAL DEPOSITS	RATIO GROSS OPER. REV. TO TOTAL AVAILABLE FUNDS *
$100,000 and under	7.48%	5.26%
$100,000—$250,000	5.93%	4.69%
$250,000—$500,000	5.51%	4.52%
$500,000—$750,000	5.30%	4.38%
$750,000—$1,000,000	5.17%	4.29%
$1,000,000—$2,000,000	5.44%	4.43%
$2,000,000—$5,000,000	5.34%	4.38%
$5,000,000—$50,000,000	5.04%	4.14%
Over $50,000,000	3.16%	2.73%

* "Total available funds" means total assets less: (1) customers' liability on account of acceptances, (2) acceptances of other banks and bills of exchange or drafts sold with endorsement and (3) securities borrowed.

From the foregoing figures it would appear that the smaller banks have, as a rule, a larger proportion of local loans bearing relatively high interest rates, and a smaller proportion of low yield paper, such as short term Treasury bills, commercial paper, brokers' loans, etc., than have the larger banks.

Likewise, the smaller bank has a generally higher operating cost (i.e., cost of doing business) per unit of funds than the larger bank. *The ratio of expenses to total funds tends to decrease as the size of the bank increases, irrespective of whether interest on deposits is included in operating expenses.* This trend is illustrated below:

SIZE-CLASS BY TOTAL DEPOSITS	RATIO EXP. TO TOTAL AVAILABLE FUNDS (Incl. int. on deposits as an oper. exp.)	RATIO EXP. TO TOTAL AVAILABLE FUNDS (Excl. int. on deposits from exp.)
$100,000 and under	4.53%	3.79%
$100,000—$250,000	3.84%	2.92%
$250,000—$500,000	3.66%	2.57%
$500,000—$750,000	3.47%	2.35%
$750,000—$1,000,000	3.43%	2.21%
$1,000,000—$2,000,000	3.50%	2.32%
$2,000,000—$5,000,000	3.42%	2.21%
$5,000,000—$50,000,000	3.23%	2.25%
Over $50,000,000	1.70%	1.36%

The slight reversal of trend shown by the medium-sized group ($1,000,000 to $5,000,000 of deposits) in operating expenses as related to total available funds is due partly to the fact that many banks in these size categories operate trust departments, the cost of which is, of course, included in the operating expense account. This fact also is reflected in gross earnings, as shown in the second table.

A third conclusion is that *the ratio of net operating earnings to gross operating revenue tends to rise as the size of the bank increases.* In other words,

the larger bank usually has a lower (or more favorable) "operating ratio," i.e., a lower ratio of expense to gross. This tendency is indicated below:

SIZE-CLASS BY TOTAL DEPOSITS	RATIO OF OPER. EXP., INCL. INT. ON TIME DEPOSITS, TO GROSS	RATIO OF INT. PAID ON TIME DEPOSITS TO GROSS
$100,000 and under....	86.01%	13.96%
$100,000—$250,000....	81.81%	19.54%
$250,000—$500,000....	80.98%	24.18%
$500,000—$750,000....	79.32%	25.69%
$750,000—$1,000,000..	79.88%	28.44%
$1,000,000—$2,000,000.	79.02%	26.58%
$2,000,000—$5,000,000.	78.06%	27.55%
$5,000,000—$50,000,000	78.13%	23.73%
Over $50,000,000......	62.30%	12.66%

It may be observed that the relatively high operating ratios shown by all classes from $500,000 up to $50,000,000 in deposits are due largely to interest paid on time deposits. If interest were to be excluded as an operating expense, the operating ratios of banks in size-classes above $500,000 would not show wide variation. However, the unfavorable operating ratios of banks with deposits of less than $500,000 would appear to be due largely to non-interest expenses.

Owing to the relatively less favorable operating ratios of the smaller banks as compared with the largest category ($50,000,000 and upward), it is not surprising to find that *the ratio of net operating earnings to both capital funds and deposits tends to increase as the size of the bank increases.* This is true in spite of the lower gross revenues in proportion to size which were shown by the larger institutions. The table below illustrates this tendency:

SIZE-CLASS BY TOTAL DEPOSITS	RATIO OF NET OPERATING EARNINGS TO CAPITAL FUNDS	RATIO OF NET OPERATING EARNINGS TO TOTAL DEPOSITS
$100,000 and under....	2.62%	1.05%
$100,000—$250,000....	4.26%	1.08%
$250,000—$500,000....	5.01%	1.05%
$500,000—$750,000....	5.51%	1.10%
$750,000—$1,000,000..	5.35%	1.04%
$1,000,000—$2,000,000.	5.34%	1.14%
$2,000,000—$5,000,000.	5.72%	1.17%
$5,000,000—$50,000,000	5.54%	1.10%
Over $50,000,000......	7.60%	1.19%

The low ratios of net operating earnings to capital funds shown by the two smallest categories is due to a high ratio of capital funds to deposits among institutions in those size-groups, as may be inferred by comparison with corresponding figures in the right-hand column.

Data on losses charged off during the year 1934 alone are of little value for the reason that in many cases losses accumulated during prior years were entered on the books in 1934 in connection with capital readjustments. This fact should be borne in mind in considering the 1934 loss ratios shown below:

SIZE-CLASS BY TOTAL DEPOSITS	RATIO OF GROSS LOSSES AND DEPR. TO TOTAL AVAILABLE FUNDS
$100,000 and under......	3.82%
$100,000—$250,000......	3.28%
$250,000—$500,000......	2.99%
$500,000—$750,000......	2.63%
$750,000—$1,000,000	3.63%
$1,000,000—$2,000,000...	3.42%
$2,000,000—$5,000,000...	3.54%
$5,000,000—$50,000,000..	3.46%
Over $50,000,000........	1.72%

Out of all the foregoing data, one fact seems to stand out: The largest banks (those with deposits of $50,000,000 and upward) showed results considerably at variance with those of all classes having total deposits of less than that amount. The largest banks had, in 1934:

1. The lowest average rate of return on funds.
2. The lowest operating cost per unit of funds.
3. The lowest ratio of interest payments to gross operating revenue.
4. The most favorable operating ratio.
5. The lowest loss ratio.

As a corollary, it might be said that the 1934 statistics, being fresh and bearing upon current conditions, indicate that the smaller banks must maintain a relatively high ratio of gross to total funds, or else materially reduce rates of interest paid on deposits, if net operating earnings are to be kept at a reasonable level. A reduction of gross revenues, even of moderate proportions, could virtually wipe out the net operating earnings of most of the smaller institutions, unless accompanied by an offsetting reduction of interest on deposits. Gross revenues may be supported by imposition of adequate service charges or by the maintenance of a fairly high proportion of local loans bearing 5 or 6 per cent interest rates, if the latter be possible.

As to current net operating earnings, it will be noted that there is not a very wide variation between large and small banks when these figures are related to total deposits, the range being from 1.04 per cent to 1.19 per cent for the year 1934. In view of the fact that a study of gross losses of national banks over a 45-year period, including the recent crisis, indicates an annual average equivalent to about 1 per cent of total deposits, the question may well be asked whether current operating earnings of the average bank are adequate to provide reserves against future losses.

One conclusion, perhaps, may be hazarded, namely, that future banking losses must be kept smaller than the average of the past, or net operating earnings must increase substantially from present levels if more than nominal net profits are to be earned.

The Varying Size of Clearinghouse Memberships

September 1, 1935

NUMBER OF MEMBERS	CLEARINGHOUSES	NUMBER OF MEMBERS	CLEARINGHOUSES
2	64	28	7
3	98	29	3
4	66	30	3
5	65	31	1
6	45	32	1
7	22	33	2
8	25	34	1
9	16	35	1
10	20	36	1
11	19	37	2
12	12	38	1
13	13	39	1
14	13	45	1
15	9	47	1
16	13	48	1
17	5	49	1
18	6	51	1
19	5	52	2
20	5	63	1
21	7	68	1
22	3	72	1
23	1	74	1
24	2	82	1
25	2	83	1
26	4	89	1
27	5		

Compiled by the Bank Management Commission, American Bankers Association

Architectural Anarchy

By KENNETH B. NORTON, A.I.A.

THE emphasis placed on the home-building phase of our national recovery effort has given the friends —or should we say the apologists—of modernistic architecture a splendid opportunity.

With commendable enterprise they have ballyhooed the cause of functionalism, coordination, rationalism, economy and the new aesthetics until one wonders whether the Greeks really had the right word, after all, and whether the Lincoln Memorial should be done over.

We are told that usefulness is the thing, that the way to the more abundant life leads from a home which is the ultimate word in economy, with its steels, enamels, glass bricks and machine-like atmosphere. We also learn that the dining room is a vulgar vestige of a pre-depression past. We would be led to think that beauty, as we have always known it, is a vanity, pleasant enough, to be sure, but rather a bore in an age of regimentation, at least until it has been tailored to the patterns of the new school.

It is quite possible, of course, for an architect to be modern without being modernistic, the distinction being that the former builds on tradition, adapting as he goes, whereas the latter is content to place a touchingly implicit trust in his own genius. Judging by the tone and appearance of much of the material presented in the current architectural periodicals, a modernistic form of architecture is being widely accepted by the public. This assumption, however, has no basis in fact; the movement is largely confined to the classroom intelligentsia of certain schools of architecture, and to the professional press.

The real question still is: Do we want architecture that sells or architecture that yells?

If a banker does not care to lend his depositors' money on a building whose design he regards as experimental, to say the least, he is open to the familiar criticism that he is reactionary, short-sighted, tight-fisted and quite the antithesis of the pioneer. He is assured that architecture, like life, is always evolving and that the present movement contains certain enduring fundamentals, however outlandish its momentary trimmings may be. If he persists in holding that he cannot risk other people's money during the winnowing process, he encounters an elaborate thesis on the inevitability of change and the dangers of fighting it, especially when it is rooted firmly in the consciousness of a people.

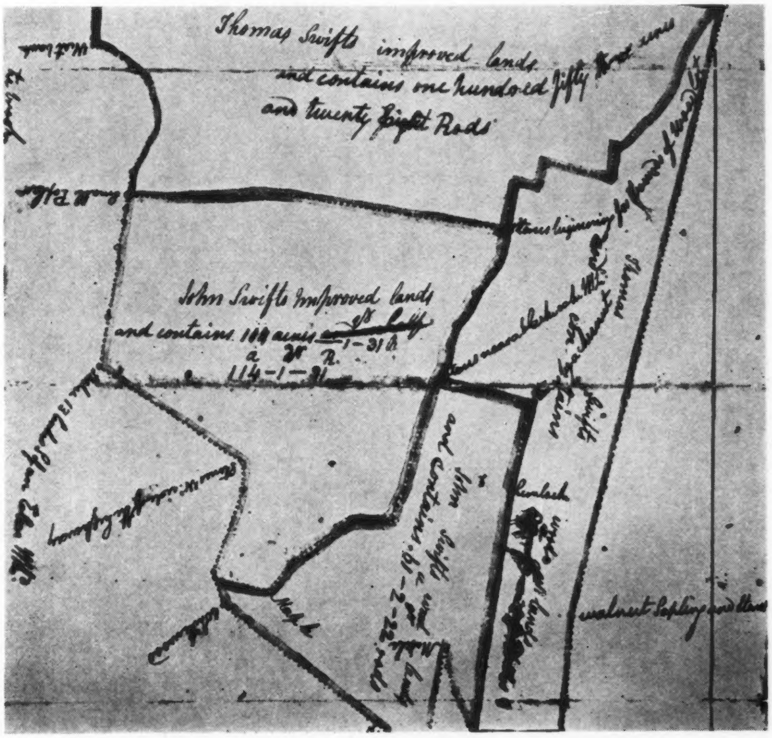
Well, the banker, of course, may be wrong. The design of our homes has undergone radical changes in the past, and there is no reason to believe—or hope—that it will not do so again. Yet it has always taken a considerable time for the permanent features of these periods to manifest themselves; each has left its imprint after it had been adapted to the tested principles of experience. Architecture, in other words, must conform to the process of natural selection.

The rococo era, for instance, made certain enduring contributions; but they were hardly the pretty plaster angels which in those dear, dead days —ultra-modern, incidentally, while they lasted—clung tenaciously to the ceilings of highly and horribly ornamented rooms.

Smile at the pink cherubs, and again at the wooden gingerbread of a later

SALABILITY

The best example of permanent salability is furnished by the old houses of early American ancestry which are still in demand a century or two after they were designed. Below, a century-old home-made map which accompanied a deed to a farm home that is still in use



day, and then notice how the modernistic architect is endeavoring to "interpret" the Nineteen Thirties. He gives us the corner window, with the wall above suspended in the air; the "functional" kitchen; the streamlined bathroom (in orchid, green, red or blue); the walls of cork, concrete, leather, copper or other material that may come to hand. He eliminates the entrance hall as well as the dining room, leaving us to receive, entertain and feed our guests in the pitiless publicity of a scientifically designed salon, sterile as an operating room. He disregards the balance between voids and masses. He treats exterior and interior design severely and harshly, removing ornamentation. Perhaps much of this is intended to remind us that we should be, even if we are not, chastened by our late misfortunes. Beauty is in a bear market.

With this architectural anarchy, of course, goes much that is highly indispensable. Mechanical refinements of living, such as automatic refrigeration, correct lighting and ventilation, air-conditioning, housekeeping gadgets and other conveniences, are necessaries of life. They are offered in lavish abundance, thanks, not to the impressionistic architect, but to the scientists and engineers whose contributions to our welfare are no less welcome because they increase our dependence. Incidentally, however, these accessories to our comfort can be clothed in raiment that fits us like an old coat rather than like an impressionistic strait-jacket.

In planning these modernistic buildings, high-minded, socially-conscious but inadequately trained architects are trying to reduce living to its fundamentals. (No doubt we should be grateful, even though we may think that certain events of the last five years have already set us on that basis.) They would regiment us into as little space as possible, with the assurance that we had too much before and that such creature comforts as dining suites represent a waste of money. Can it be possible that a man might want to "waste" a little space so as to enjoy the old-fashioned privilege of gracious living? Should anyone be content with a Duncan Phyfe table when he can furnish his living room in the very serviceable but cold comfort of enameled steel tubing? It is well to remember that architectural design exerts a definite sub-conscious effect on the individual who must live with it. Pity the poor fellow who, morning after morning, must rise from a modernistic bed, shave in a high-blood-pressure bathroom, breakfast at a steel and marble table, and rush to work from a regimented house.

Too many of our younger architects are extremists guided by what Joseph Hudnut, dean of architecture at Harvard University, has called the "ingenious conceits" imported from Paris. These principles, if principles they be, are stressed at a number of colleges and are fostered by the frequent competitions for architectural prizes.

In a paper recently prepared for the American Institute of Architects, Dean Hudnut made some pungent observations on modern architectural training and trends.

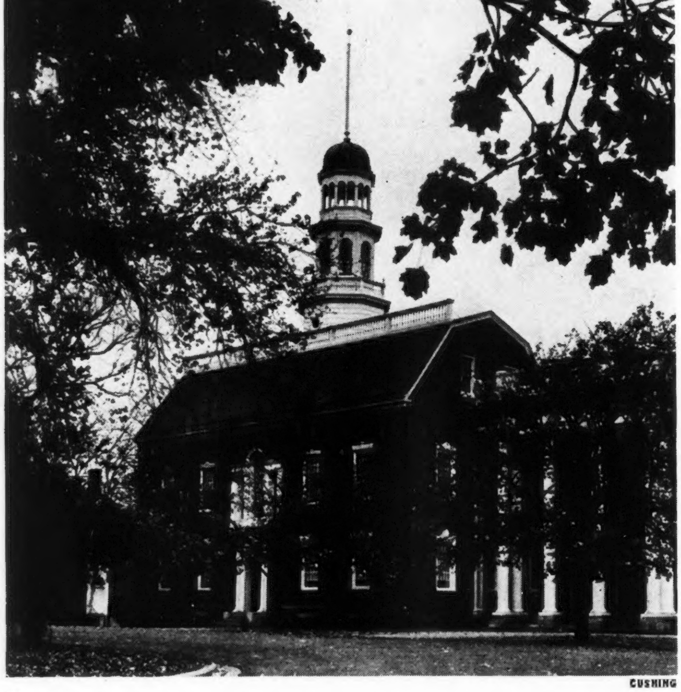
"Hocus pocus," he said, "is especially prevalent in that quaint activity which we call architectural education. For example, in New York City the processes of architectural education are controlled by a most enthusiastic society of architects who have imported from Paris a collection of ingenious conceits and from these have constructed a façade of convention so formidable that no one has even dared to ask what it is all about. And yet the actual educational technique of this group consists in eating a good dinner once every six weeks. After this dinner, between cognac at nine and a glass of beer at midnight, 400 architectural awards are made.

"These awards are made for what are called 'designs for buildings', but which have been developed under a set of rules so written as to divorce the designer as far as possible from any conditions that might conceivably govern the practice of architecture; and for that reason it occasions not the least surprise to learn that scarcely one of the competitors could build even a part of the structure that he has 'designed'."

"The central problem in architecture today," the Dean observed, "is the creation of some harmony between our technology and its application and our expression. By technology and its applications is meant that vast industrialization which has taken place in the science of building. . . . By expression is meant those transformations of environment which are the consequences not so much of material necessities as of preferences—those proportions, rhythms and unities from which we derive a contemplative satisfaction."

Contemplative satisfaction! Is this ultimate message of art to be found in regimented and impressionistic architectural design?

We are told, somewhat loudly, that modern architecture is honest and eco-



CUSHING

1722

DOVER, DELAWARE—The old state capitol was built more than 200 years ago, and is one of the oldest buildings still used for the purpose originally intended. A newer building houses the legislature, but the state still uses the older building

nomical, that it expresses the structural and reduces social factors to the minimum requirements; that it has adopted new materials. The answer is simple: Who cares? Most of us, fortunately, do care about one thing, and that is beauty. We desire more from life than utilitarian efficiency.

How and where did this movement start? No doubt it was fostered by the post-war restlessness of peoples who, in the enthusiasms of a new freedom that was soon to be curtailed, sought a violent break with the past and took refuge in impressionism, *vers libre*, jazz. The origin seems to go back thirty years to a Frenchman. He couldn't paint, but he did daub a cubist smear which he had the wit to call just that, explaining its meaninglessness by a deep-laid philosophic theory. The intelligentsia, ever ready to take up a new fad, thought that sponsorship of cubism was the thing to do, and how they did it! In fact, they are still at it—in art, literature, sculpture, architecture.

Because it costs money to put bricks and mortar together, the extension of "modernism" to architecture was for many years retarded and the profession's young geniuses had to be content with keeping their theories on paper. After the war, however, when American dollars were financing all kinds of socialistic housing projects on the Continent—especially in Central Europe—"modern" architecture arrived with a flourish.

The modernists, instead of studying the classic forms of design and structure and gradually finding a means of adjusting them to their theories, plunged ahead with a glorious spurning of tradition. The fundamentals of classic art were gleefully cast aside—it was too easy to make new rules—and there was an utter disregard for the precept that the principles of an art must be mastered before they can be adapted to new forms. But there was—and is—a strict application of the dictum: Usefulness before beauty.

Ninety per cent of the designs submitted in architectural competitions today are modernistic creations loudly proclaiming the cleverness of their originators. What is the result? Ideas which are at absolute variance with the ideals of the American people are being forced on our centers of population. We are told: This is the thing; it's new and it's good. Are we tempted to sacrifice our independence of judgment because we timidly feel that maybe it is good and that we ought to like it?

Architects of the new school, it seems, have not fulfilled the definition of an architect: a master builder. Their visionary creed allows them to be governed by the practical common-sense of the builder who tells them what to do—where to put the elevators, where to provide the setbacks, where the fireplace is to go, and how the dining room can be sacrificed. They have, in a measure, lost the confidence of the building industry and its good angel, the financial institution.

Why should bankers accept these untried and alien principles? Let us have no regimentation when we build our homes. Will not the time come, as H. G. Wells suggests, when people will rebel against too much efficiency?

This, of course, does not mean that we should endeavor to stop change, even if we could do so. But we are often mislead in our notions of where change should take us. The fact is that time is required to refine new ideas so that they can take their proper place in our scheme of things, whether in our homes, our literature, our art, or our daily lives. Our civilization should be reflected in our architecture, yet we must not permit ourselves to believe that the "ingenious conceits", bearing their Paris label, can have a lasting effect on our mode of living.

In fairness, however, it must be said that there are certain occasions where modernistic architectural treatment is desirable. The design of the Century of Progress Exposition, for example, was modernistic, but it was a suitable setting for a show. Likewise, the new ideas are well fitted to theaters and exhibition halls where a bizarre effect is desired, and also to night clubs and some types of stores.

Among numerous examples of how modern trends can be combined with old principles is the Nebraska state capitol, designed by the late Bertram Goodhue. This noted architect, steeped in the classics, was for many years a prominent exponent of the Gothic in church architecture. When he received the commission for the building at Lincoln he had the taste to accept all that was good in modernism and the ability to blend it with the more traditional forms.

Here, indeed, is the real point. We cannot stop change, nor do we want to; but we can select carefully and evolve an architecture that represents the best of the past and of the present. Let us be sure that we shall have "contemplative satisfaction", and art rather than anarchy.

1931

WIDE WORLD

LINCOLN, NEBRASKA—Mr. Norton says that "among the numerous examples of how modern trends can be combined with old principles is the Nebraska state capitol, designed by the late Bertram Goodhue"

Restless Bank Advertising

PRIOR to publishing William Dorsey Kennedy's article, "A Bank's Public Appearance", in its October issue, BANKING sent copies of the manuscript to members of the Financial Advertisers Association and some advertising agencies serving banks, requesting their reactions to the author's views on bank advertising.

The replies, partially summarized herewith, constitute an illuminating symposium on the problem of directing a bank's relations with the public. Expressing widely divergent opinions on Mr. Kennedy's discussion, they also strongly indicate that the general question of what, when, where, why and how financial institutions should advertise is still in an evolutionary state. Bank advertising, in other words, seems restless. It would like to be sure that it is doing its job properly.

Nearly every person who undertook a critical analysis of the article agrees that bank advertising, generally speaking, reflects the spirit and policy of the individual institution. If the copy is vivid, live, and tells a story, it reflects a virile, effective institution. If the appeal is lifeless and perfunctory, the bank surrounds itself with an atmosphere that suggests these qualities.

It is widely agreed also that bank advertising must have a definite objective —the increase of general business, the promotion of institutional interests, the development of particular services. Some commentators make the point that banks have something tangible to sell, and should approach their market with a frank story of what their merchandise is. Others believe the best advertising is the institutional type, designed to build, as one commentator says, "acquaintance, confidence and good will". Another thinks bank copy "should emphasize the spirit and policy of a bank, assuming they are worth talking about." Every bank advertisement, he writes, "whether it is on loans, trust service or the savings department, should be in a real sense an institutional advertisement."

Within the bank itself, who is to decide upon just what will and what will not be advertised? Must copy be subjected to the gauntlet of Mr. Kennedy's copy writer's "two committees, three vice-presidents and the president and the chairman," with the result that if it ever had any life in it they take it out, or can it be left to the tender mercies of a copy writer who may not have either the knowledge or the ability to reflect the spirit and policies of the institution?

"In far too many cases he is a negative, easily discouraged type with no breadth of advertising experience as a background," writes one commentator. "Too many snap judgments and 'noes' of key executives have made him chary of endorsing positively even soundly conceived and ably executed campaigns."

"I know that in many instances," says another, "it is true that bank officers place too many restraints upon their advertising men, and subject every statement in an advertisement to the closest scrutiny and analysis; and yet this is a sound banking policy, for the banker cannot express one attitude in advertising and then follow in his management and credit policies a course of action that is directly opposed to his public expressions. I do believe that in many banks this attitude is carried too far, and in some cases bankers are not

Comments

"When the political skies clear so the banker will know that he is standing on firm ground instead of a floating ice pack, there will be a great opportunity for simple, sincere bank advertising."

•

"The best bank advertising isn't merchandise advertising but institutional; . . . so-called commercial trust and savings copy may sell the individual but not the bank. Let the other fellow sell the idea of a living trust. I'll sell the soundness of my bank and take the new business my competitor has drummed up."

•

"Especially do I question the statement [in Mr. Kennedy's article] that 'everyone would like to know' about banking. True, the need for public education has been thoroughly discussed in F.A.A. and A.B.A. circles for the past several years. I wonder, however, whether John Smith and Mrs. Smith and Henry Brown really *want* to be educated. Of course it would be splendid if they did know more about banking principles, methods and policies; but fundamentally aren't they much more interested in specific banking services and facilities?"

Expressions of Opinion on "A Bank's Public Appearance"

willing to express themselves at all for fear of saying the wrong thing. Nevertheless, as Mr. Kennedy points out, after reasonable limits of restraint have been applied there is still room left in which to produce attractive and effective bank advertising."

One bank copy writer says he has never, in 10 years of experience, "been hamstrung by petty criticisms from superiors." "It has been my good fortune to have constructive criticism as to policy, veracity, etc.—all of which I have appreciated because I know that no advertisement will do my bank lasting benefit unless it states the truth. Furthermore, I have to state it in such a way that it cannot be misinterpreted, for misinterpretation is equal to misstatement in the reader's mind."

On the other hand, how many banks can afford the services of an advertising manager or even of an advertising agency that will render a really thoughtful service designed to hold present depositors and encourage new ones? One commentator asserts that most bank advertising is mediocre because most banks buy their advertising solely on price. He advocates the use of advertising agencies, but other commentators object to those services on the ground that they possess most of the faults of "canned" advertising. Manifestly, these comments aim at advertising copy that will enable a bank to tell its own story to the public; manifestly, also, this means that each bank must decide for itself how it can best secure such service.

Meanwhile it is evident that a successful copy writer for a bank must adapt his work not only to the needs of the bank as he sees it but also as the bank management sees it. He cannot otherwise properly reflect the spirit and policies of the bank. A corollary, however, is that when once he absorbs this spirit and policy the bank management should give him an opportunity to "strut his stuff" or get some one who can do so to its satisfaction.

Commercial agency copy for banks is criticized as being usually too academic. "Most of them," observes one commentator of the agencies, "go astray because they know nothing about the great subject of banking and most of them, in my opinion, care less. The ads are designed to look nice from their own point of view but they miss the target entirely." There is a general disposition to agree to the proposition that the average advertising man cannot intelligently write bank advertising since he does not have the thorough understanding of banking and its problems which is necessary. On the other hand: "If the banking fraternity would permit the advertising fraternity connected with their institutions to put as much selling punch into their copy as is done by the automobile manufacturer, banking would have a higher standing in the community than now exists." Per contra: "Fundamentally, the problem of bank advertising is not greatly different from any other: to find the basic reason why, to present it strongly, convincingly, appropriately. Since the reason why of bank advertising is so different from those commonly met in product advertising and since appropriateness demands a conservative presentation, it is only natural and right that bank

Comments

"I wish bank advertising men weren't suffering (as many are) with what the big-worded philosophers call inferiority complex, and that high powered advertising agencies would desist in their sales campaigns that are designed to make any banker—in big city or hamlet—think that just by retaining their service a 'big idea' on bank advertising will come to the bank, as electric light and power come from a central station."

•

"I believe in placing the [advertising] job in the hands of one good man and holding him responsible. Nearly every good bank ad. I ever saw was produced in that way, and I have seen very few come out of a committee hopper."

•

"All advertising men seem eager to service banks. Few of them really understand banking problems. Those who reduce banking fundamentals to simple language and in their copy make the reading public understand and apply these principles are not quite, but almost, as rare as nightingales in the snow. At no time in the past have banks and bankers so needed as now public good will based on sympathetic understanding and a universal restoring of lost confidence in banking personnel. Those of our profession who know this and work with these ends also in view produce copy that attracts attention and brings results."

advertising should have little resemblance to that for foods, cigarettes and automobiles. Unfortunately, the conservative atmosphere often leads bank advertisers away from their reasons why."

Bank copy is generally criticized because it lacks human appeal, but where the line can be drawn between the conservative and the more vivid style of commercial appeal is not so certain. It is pointed out that while bank advertising is conservative it is honest and therefore not subject to the discount placed upon much commercial advertising with its claims to superlative quality for the common things of life. Commentators admit this, but ask: "Is it read?"

Another criticism of bank advertising is that it is not too conservative but too profound; that it shoots over the head of the average reader instead of setting forth facts of banking in a way to appeal to him. One critic says: "It is bad to write a letter . . . that will not be understood. Why then will banks try to reach the masses through advertising with ho definite individuals in view? Bank advertising in many instances is a charity. Banks pay money for advertising simply to be seen in print and without any definite objective in view."

Levelling shafts at deadly dullness, however, does not in itself make live copy and few critics have very definite ideas of what can be done about it. The school which favors aggressive copy writing along commercial lines is fairly strong. Most critics agree, however, that too aggressive copy "brings more squawks than good will." Some contend that banks as a rule are too much dominated by a "fear complex"—fear of offending patrons, stockholders, competitors or possible customers. The reply is that banks have had good reasons for fear. Many institutions which carried on aggressive advertising campaigns in the Twenties suffered later because of their aggressiveness. They have passed through difficult times and must tread warily if they are to regain and retain the public's good will.

Nevertheless, in spite of these inhibitions, there is general agreement that abundant, almost unlimited, material exists for live, vivid, forceful and effective advertising by banks. Says one commentator: "I know nothing outside bank advertising, except perhaps news gathering and news writing, that lends itself ideally to portrayal of life's drama, —the full sweep of it." Attention is called to the fact that hundreds of banks, even of medium size, are successfully spreading their message in newspapers and magazines, by letter, street car, over the radio and in other ways with as conspicuous success as any line of commercial advertising.

Criticism is not altogether devoid of suggestion. Several commentators advocate featuring the pleasing personality, courtesy and cordiality of bank personnel; the interest in helping; the desire to smooth a client's business way; kindly advice by officers, and directors familiar with a client's business. Many of the replies favor advertising specific services, personal loans, mortgage loans, perhaps real estate bonds and especially trusts, suggesting in the latter case that clients re-read their wills to make sure that in the light of present conditions they represent the client's real intentions. There is general approval of "fact" advertising; that banks frankly meet current issues, such as service charges, in the confident expectation that the patron will approve of action looking to bank soundness even if it impinges upon his immediate interests.

EDUCATION

THEN there are the possibilities of educational campaigns, although there is considerable debate as to whom to educate and how to do it. One school of thought proposes education along broad lines for the purpose of preventing the public from being misled "by the headless horsemen, political soothsayers, financial crystal gazers and economic witch doctors now assailing the American system of banking for political purposes." Another suggested line of campaign is calling the attention of the public to recent legislative changes as affecting its interest in establishing new credit limits or facilities, as indicating new economic trends in protection of deposits and investments, and whatnot. There is rather general agreement that there are important possibilities in a campaign to instruct the public, particularly a bank's own patrons, in the scope and purpose of bank facilities.

Virtually all critics agree in the idea that the chief fault of bank advertising long has been and now is a lack of definite object. Says one: "I believe the real fault of bank advertising to date lies in the fact that bankers generally do not know the real purpose of advertising—do not appreciate all that it is capable of producing for them in direct profit and good will, have no idea of what advertising should accomplish, and, probably most important of all, have no (CONTINUED ON PAGE 70)

Comments

"The man who pays for space is entitled to profit from its use, and that should hold for a bank as well as any other business. It must sell, in my opinion, although there I realize that everybody will not agree with me entirely."

•

"My observations in my chosen field will not allow me to agree with Mr. Kennedy on the one point that every piece of copy should be submitted to half a dozen of the bank's officers for criticism. It has been my experience that here, as elsewhere, too many cooks spoil the broth. The advertising man has learned to apply the fundamental test to every word that he writes: 'How will the public react to what I am saying?' The departmental heads of financial institutions are men who have never been required to cultivate this ability. Invariably, too, the loan officer finds loan advertisements vastly superior to other services, and the trust officer feels—as he should—that his bank stands or falls by the work of his department. For all these reasons the advertisement that is written to please everyone is apt to resemble the man who would have everyone his friend. He may be very pleasant but he lacks driving force."

"As Every Schoolboy Knows . . ."

By H. C. DALE

Dean of the School of Business Administration, Miami University

WHAT do boys, and girls, too, for that matter, learn in school or in the everyday contacts and associations of life about one of the most universal of all experiences, the saving and spending of money?

Miami University in Oxford, Ohio, is trying to find the answer. A set of 20 questions with four suggested answers to each, only one of which is correct, was put to some 900 entering freshmen this Fall, boys and girls coming from all over Ohio who had just graduated from high school. The average age was 18 and slightly less than half were girls. The fact that they were entering a university probably means that they were a more or less picked group who presumably ought to know more than the average run of boys and girls of the same age.

Here are 18 of the questions with the suggested answers from which the boys and girls were to select by number the correct one. Two questions were entirely local and are omitted. Definitions came first with this question:

1. A mill is
   (1) a hundredth of a cent.
   (2) a tenth of a dollar.
   (3) ten cents.
   (4) a tenth of a cent.

724 out of 894 or 81 per cent got it right. However, 145 thought a mill is a hundredth of a cent and 22 that it is a tenth of a dollar.

The next one was a little harder.

2. The 59-cent dollar means
   (1) a dollar that will buy the same amount that 59 cents bought before the depression.
   (2) a dollar that contains 59 cents' worth of silver.
   (3) a dollar that is based on 59 cents' worth of gold.
   (4) a dollar that will buy 59 cents' worth less than in 1932.

Slightly less than half got this right; 194 selected answer No. 1 as correct; 140, No. 2; and 29, No. 4; while 539 picked the winning answer. Perhaps this is a better showing than their elders would make.

The next questions deal with banks and ordinary banking procedure.

3. Mrs. X drew a check for $50 to pay her bill at the Dry Goods Co. store. On her way to town she lost the check. She should
   (1) destroy the stub and merely write another check.
   (2) tell the bank on which the check was drawn not to pay it.
   (3) do nothing, since she has lost her $50.
   (4) put a "lost" ad in the newspaper.

Forty out of 903 thought Mrs. X should destroy the stub and merely write another check. No one thought she had irretrievably lost her $50, but two thought she should put a "lost" ad in the newspaper. The correct answer was given by 861.

4. If you were able to borrow money at the bank you would probably pay interest at about the rate of
   (1) 6 per cent per month.
   (2) 6 per cent per year.
   (3) 1 per cent per month.
   (4) 1 per cent per year.

There were 898 answers to this question. Over one-tenth or 96 thought they would pay 6 per cent per month, 30 estimated 1 per cent per month, a few even thought 1 per cent per year was the correct answer, but 85 per cent or 764 knew that the right reply was approximately 6 per cent per year.

There was much uncertainty about who owns banks. Two questions were asked on this, one dealing with national banks, the other with state banks.

5. National banks are owned by
   (1) stockholders.
   (2) the U. S. Treasury.
   (3) those who deposit money in them.
   (4) the Federal Reserve System.

There were 893 answers. Over half, or 457, thought national banks were owned by the Federal Reserve System, 218 thought they were owned by the U. S. Treasury, 24 by the people who deposit money in them, and only 194 or a little over one-fifth knew that in reality banks are privately owned by stockholders. An even greater lack of information appeared next.

6. In Ohio, state banks are owned by
   (1) the State of Ohio.
   (2) stockholders.
   (3) large national banks.
   (4) the state bankers association.

Only 257 out of 871 replies were correct. The largest score (280) was made by those who thought the state banks were owned by the State of Ohio, while 230 thought they were owned by the state bankers association and 104 that they were owned by larger national banks.

One question dealt with banking operations.

7. You get interest on money deposited in a sound savings bank because
   (1) the Government issues money to banks for this purpose.
   (2) the bank rents safe deposit boxes and uses the money received from these rentals to pay interest to you and other depositors.
   (3) the bank makes money buying and selling stock and pays interest out of these earnings.
   (4) the bank buys bonds and pays you interest from the earnings of these bonds.

There were 895 replies, 42 entertaining the pleasant idea that the Government issues money to banks to pay interest on savings deposits. Sixty-seven thought the rental of safe deposit boxes supplies funds for this purpose. Only 388, or less than 45 per cent, knew the correct answer. An even larger number (398) thought that answer No. 3 was correct.

Several questions were included on the simpler aspects of securities. The first dealt with their purchase.

8. If you wanted to buy a hundred shares of stock in Swift and Co. (meat packers) you would apply at
   (1) the New York Stock Exchange.
   (2) a bank.
   (3) the Union Stock Yards.
   (4) the Chicago Stock Exchange.

The big majority (751 out of 903) answering this question thought that if you wanted to buy a hundred shares of stock you simply wrote or went to a stock exchange (New York or Chicago) to get it. Nineteen even thought that 100 shares of Swift and Company could be obtained at the Union Stock Yards. Only 133 knew that an individual would go to his bank for this service.

The nature of common stock was better understood.

9. A person who owns a thousand shares of stock in a company has
  (1) the same thing as a thousand-dollar bond.
  (2) the promise of the company to pay $1,000 at some future date.
  (3) a part ownership in the company.
  (4) the right to $1,000 worth of the company's products.

A large proportion, 795 out of 896, got the correct answer.

10. Common stock is so-called because
  (1) it is held by all in common.
  (2) it represents common ownership in the concern.
  (3) it is bought and sold on a stock exchange.
  (4) it is the kind of stock ordinarily bought by common people.

There were just 900 answers to this question. There were 340 who thought that common stock was so-called because it was bought and sold on an exchange. Fifty-five opined that it was because it was held by all in common, and 27 even thought it was so-called because it was the kind of security usually bought by common people. The correct answer was given by 478.

The nature of no-par stock was a little more puzzling.

11. No-par stock means
  (1) stock selling below par.
  (2) stock which pays nothing.
  (3) stock which has no stated value.
  (4) stock that sells for less than $100.

To be sure, some 638 out of 887 got the correct answer, but 121 thought it was stock selling below par, 83 thought it was stock that paid nothing, and 45 that it was stock selling for less than $100.

A further question dealt with the rights of stockholders.

12. Holders of common stock in a concern
  (1) can vote for directors of the company.
  (2) cannot vote for directors of the company.
  (3) can vote for directors only if the company fails to make money.
  (4) can vote to distribute the money earned by the company among the stockholders.

The larger number of answers (370 out of 865) indicated the belief that the holders of ordinary common stock cannot vote for directors; 103 chose answer No. 4, 60 answer No. 3, while only 332 knew the right answer.

The nature of dividends seemed to be reasonably well understood.

13. Dividends are
  (1) earnings of a company paid out to stockholders.
  (2) payments made to bondholders.
  (3) money borrowed by the company.
  (4) money paid by purchasers in buying shares of stock in a company.

Out of 903, 746 had the correct answer, though 124 thought dividends were payments made to bondholders and 306 thought them to be purchase money.

There was even more uncertainty about bonds.

14. A person who owns a thousand-dollar bond of a company has
  (1) the same thing as a thousand dollars' worth of stock.
  (2) the promise of the company to pay $1,000 at some future date.
  (3) the right to share in the earnings of the company if it is successful.
  (4) ownership in the company to the extent of $1,000.

Although 456 out of 893 had the right answer, 203 thought a bond-holder had a right to share in earnings of the company only provided the latter was successful; 177 thought a thousand-dollar bond represented a thousand dollars' worth of ownership and 57 thought it was the same thing as a thousand dollars' worth of stock.

15. The holder of a thousand-dollar bond in a company is entitled to receive
  (1) dividends.
  (2) premiums.
  (3) bonuses.
  (4) interest.

Less than half, or 404 out of 893, gave the right answer, while 318 thought a bondholder received dividends, 129 thought he got premiums, and 42 voted for bonuses.

Finally, there were three questions on life insurance.

16. If you took out $1,000 "straight" life insurance and quit making payments after 10 years you would be entitled
  (1) to get back a portion of what you had paid in.
  (2) to get nothing back.
  (3) to take out no more insurance in that company.
  (4) to a tenth of $1,000 or $100.

The majority divided almost equally between answer No. 1 and answer No. 2. Only 506 (less than 60 per cent) realized that you could get anything at all back if you quit after ten years of paying premiums on a "straight" life policy, 122 thought you got back one-tenth of a thousand dollars or one hundred dollars and 76 that you could never take out any more insurance in that particular company; 377 believed you could get back a portion of what you paid in, while, as indicated above, almost precisely the same number or 376 believed you could get nothing back.

Most of the answers properly identified premiums as the payments made by holders of life insurance to the company. The question was as follows:

17. The payments which holders of life insurance make to the company are called
  (1) dividends.
  (2) interest.
  (3) premiums.
  (4) bonuses.

Nine-tenths, or 800 out of 882, had the correct answer. The remainder scattered among the three alternative answers.

The final question dealt with the same subject.

18. If you took out $1,000 of life insurance on the so-called "twenty pay life" plan (where you spread the payments out over 20 years and have to pay no more after that) and died 5 years after the last payment, your heir would be entitled
  (1) to nothing
  (2) to $1,000
  (3) to $1,000 plus interest on that amount for 5 years
  (4) to $1,000 less interest on that amount for 5 years

Only 235 out of 868 answered correctly that the beneficiary would get the face of the policy, or $1,000. Over half, or 505, believed he would receive the face of the policy plus interest for five years, while 63 thought he would get the face of the policy less interest for five years. Sixty-five answered that he would get nothing back.

There is food for thought in this showing, although this is but a sampling and should be extended to other groups of the same age before too definite conclusions could be drawn.

Responsibility for ignorance and uncertainty about money matters cannot be wholly saddled on the schools. They teach what the textbook writers offer them.

However, what doctors, dentists and dietitians have done to advance the school boy's familiarity with the rules of health, bankers, insurance writers and business men can also do in their respective fields of service. There is most certainly a challenge in this showing of "what every schoolboy knows," or does not know, about the spending and saving of money.

The Value of Well Known Directors

By E. S. WOOLLEY

THERE are two main reasons for bank advertising. One is to retain business and the other is to procure it. Of these the former is unquestionably the more important, for it is of no use to obtain business unless it can be retained. In any discussion of advertising this point should be considered first.

The foundation for retaining business will always be the intangible, but nevertheless very real, spirit of understanding and good fellowship among the employees. This *esprit de corps*, when present, can do more for the up-building of the bank and, when lacking, can hurt the institution more, than any other single factor. The tragedy is that, when it is lacking, those in authority often seem completely ignorant of the fact. Yet it is quite apparent to the outsider.

Some banks fairly exude good fellowship when one enters their doors. Others have a distinct atmosphere of restraint. If the causes are traced down they will be found to center to a large degree in content or discontent among the personnel.

This spirit of loyalty cannot be bought at a price. It can be obtained only by being given. It is like water—it will not run uphill but must start at the top. To expect loyalty from employees without those in authority giving loyalty to the employees first is to hope for the impossible.

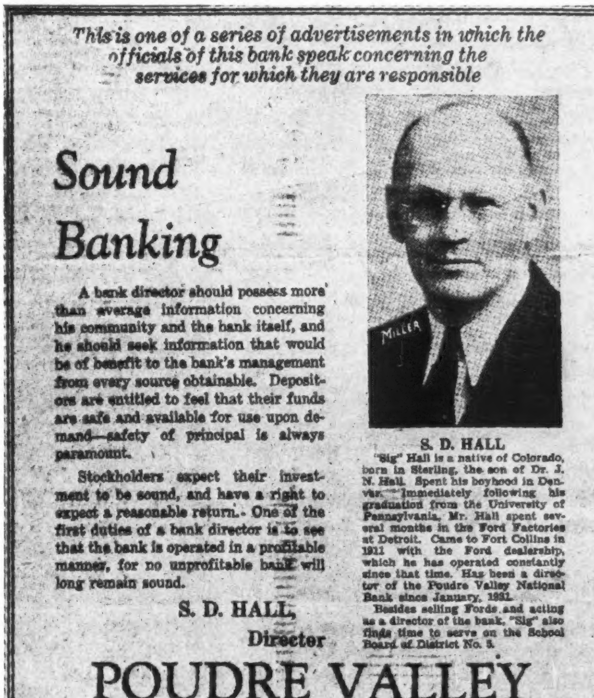
The first principle in obtaining *esprit de corps* is to create in everybody connected with the bank a lively interest in the duties which they are performing, thereby transforming "jobs" into "vocations". There are different ways in which this interest can be obtained. Making the employees feel that they are an integral part of the bank is perhaps one of the most effective. This feeling was engendered, for example, in the series of advertisements of which two illustrate this article. They accomplished the further purpose of introducing each employee to the public.

Each of the advertisements carried a notice to the effect that it was one of a series in which the officials and employees of the bank speak concerning the services for which they are individually responsible. The series started with the directors and senior officials and continued through the complete roster of employees, and each one contained a photograph and brief biography of the particular director or employee whose responsibilities were being explained.

Each of the directors spoke on different phases of a director's responsibility, such as "Trusteeship", "Activity", "Sound Banking" and "Personal Acquaintance". Under this latter caption the director in question outlined the four principal duties of a bank director which he enumerated as follows: (1) to attend directors' meetings, (2) to select or maintain proper management personnel and provide modern records and methods adequate to the needs of the bank, (3) to formulate policies governing the conduct of the bank's business and see that those policies are adhered to and (4) to conduct thorough examinations of the bank's affairs at stated intervals or direct that such examinations be conducted on behalf of the board.

The same director also stated that "officers are employed to transact the regular routine business of the bank, and carry out the policies of the institution as formulated and agreed upon by the board of directors. Acquaintance with the board of directors enables a better understanding of the bank and its policies and thereby benefits both the institution and the customer".

Each advertisement sponsored by the other directors is equally useful in creating public understanding. The one



REPRODUCED FROM A NEWSPAPER ADVERTISEMENT

titled "Activity" answered the question: "Do directors take an active part in the management of the bank?" The one headed "Sound Banking" referred to the bank's investments and the one on "Trusteeship" to the legal phases of directors' responsibility.

Under the title of "Management" the advertisement containing the photograph and biography of the executive head stated among other things that: "A bank executive is responsible for the smooth functioning of his entire organization, which means efficient handling of all routine matters, personal attention to a great many problems of customers and a constant searching for more expeditious ways of serving the public."

This is one of a series of advertisements in which the officials of this bank speak concerning the services for which they are responsible

Trusteeship

From a legal standpoint, the director of a National Bank is trustee for the depositors. In addition to the legal aspect of directorship, there is a moral obligation in that the director of a National Bank guarantees the safety of the institution to the depositors, as well as its proper management. Courts generally recognize that if directors act in good faith and exercise ordinary care and prudence, there is no legal liability for errors of judgment and honest mistakes. But woe betide the director who neglects to act as such, and permits improper practices to be carried on by the bank! This being true, the necessity of real attention on the part of directors is apparent.

FRED W. STOVER,
Director.

FRED W. STOVER

Mr. Stover has been a director since 1910. Previously his father, W. C. Stover, was a founder and first president of the bank in 1878. W. C. Stover's official connection as a director of the Poudre Valley National bank continued until his death in 1908. Judge Stover, in addition to being director, has served for a number of years as the bank's legal adviser.

POUDRE VALLEY NATIONAL BANK

Of Fort Collins

REPRODUCED FROM A NEWSPAPER ADVERTISEMENT

CUSTOMER CONTACTS

SUCH a series of advertisements not only acquaints the people of the community with the employees of the bank, but it also tends to create among those employees a feeling of individual responsibility. Such a feeling among the employees must manifest itself to the bank's customers with whom they come in contact. The impression of the bank which a customer receives is the one that is conveyed by the employee with whom the customer comes in contact. Actually, the directors and senior officers meet only a small minority of the bank's customers.

A bank with 10 directors, three senior officers and 25 employees would have in the neighborhood of 8,000 customers, and many of these 8,000 make infrequent trips to the bank. If the employees with whom they come in contact take an indifferent attitude, or show lack of interest or knowledge, the customers feel aggrieved. If, on the other hand, employees show a lively interest and comprehension of customers' problems the latter become unpaid salesmen for the bank.

Therefore, advertising must be supported by employee cooperation and enthusiasm in order to be effective. This does not mean that employees should be asked to make nuisances of themselves by soliciting accounts from their friends during spasmodic drives. Such methods may bring in a little immediate business but, taken by and large, they do not seem to be productive of permanent results. Usually such accounts as can be procured that way can also be lost that way.

As a matter of fact, directors are really in a much better position to obtain profitable new business for the bank than are the employees. The very positions they occupy and the fact that they are among the leading citizens of the community give them contacts which are not possible to the employees.

One director of one bank has been mainly responsible for the up-building of his institution. He constantly has the bank's interests in mind. If he receives a check drawn on another bank from a friend of his, he will, at the first favorable opportunity, ask that friend why he does not carry an account with his bank. He goes out of his way to take business acquaintances and friends into the bank and introduce them to the officers. In his clubs and on the golf courses he will, when occasion offers, emphasize the advantages of his bank. He has procured more profitable trusts for the trust department than all other factors combined.

In the procuring of new business, however, the bank wants profitable business, not merely accounts. Unprofitable business will not build a strong bank. The thought that unprofitable business today is somehow going to develop into profitable business tomorrow proves a fallacy 99 times out of 100. As an example of this, one bank in a town in which four other banks were located thought that it could obtain a lot of business from its competitor banks by reducing its safe deposit box rentals to $1. The result of that action was that it did rent a large number of safe deposit boxes. However, it did not obtain one worth-while savings or checking account or any other business. The only result was a considerable increase in the loss of operating the safe deposit department. Activity in the department increased tremendously, necessitating the services of additional people. This naturally increased the operating cost per box rented.

Before embarking on its advertising campaign one suburban bank of Chicago made a complete survey of its community. It obtained a large map on which every lot within the town limits was shown and it marked on the map whether or not the lot was vacant or occupied. If occupied, the lot carried an index number, and representatives of the bank entered the information they obtained in each case on cards which bore the lot numbers.

(CONTINUED ON PAGE 71)

Automobile Purchase Loans

By GEORGE E. ANDERSON

CONSIDERING the amount of credit involved and the earning possibilities, there is probably no line of personal loans which presents so much variation in bank policy as the financing of automobile purchases. A recent survey of the small loan field by BANKING, in collaboration with the Committee on Personal Loans of the Savings Division, American Bankers Association, brought out the fact that there is a large number of banks which make a specialty of automobile financing, some banks reporting that as much as 95 per cent of their small personal loans were of that type.

In a considerable portion of the banks, however, no such loans are made. The difference in policy seems to lie in a difference in fundamentals. Where banks have gone in for automobile financing at all they have acted upon the principle that the greatest profit and least loss can be realized by volume. The larger the business the better it can be systematized, the more can overhead be reduced, and the greater are the benefits to be derived from experience. On the other hand a very large proportion of the reporting banks follow the policy of having nothing to do with personal property pledges either in the form of chattel mortgages, conditional sales or otherwise. It is quite possible that actually much of the personal loan business of such banks has to do with automobiles but, so far as the bank portfolios indicate, the credit is extended on paper of two or more names, and the proceeds of the loan might be used for some other purpose.

Perhaps a primary fact to be considered in this connection is that, so far as the first-class finance companies and commercial banks are concerned, most of this financing of automobile sales is practically independent of chattel mortgages, conditional sales or other pledges of personal property. The financing is done with recourse upon the seller of the automobile, who takes the primary risk, and while the bank or finance company may have ultimate recourse upon the car buyer the losses are so small that recourse is seldom invoked.

Averaging the returns of all reporting banks it appears that 28.9 per cent of all personal loans granted are on automobiles—the largest proportion of any class of loans except those for the clearing up of outstanding personal indebtedness. The proportion of these loans which represents advances for purposes other than the purchase of cars is small —roughly 2 per cent. The bulk of this business is in advances to dealers based on conditional sales contracts, chattel mortgages representing a comparatively small proportion. The advances are made on standardized contracts worked out after long experience of automobile manufacturers, dealers and the finance companies which do most of this class of business.

EARNINGS POSSIBILITIES

AUTOMOBILE financing has reached a tremendous volume in the United States. Its attractiveness to banks lies in the possibilities of substantial earnings with little risk and the fact that there is an increasing demand from bank patrons for the credit facilities of their banks in a line which is just as legitimate bank financing as loans for the purchase of a stock of goods.

Records of the National Automobile Dealers' Association and the National Association of Sales Finance Companies give a fairly accurate picture of instalment sales financing in the automobile trade. It appears from a conservative estimate based on returns for 1934 that the financing of automobile purchases on deferred payments during the current year will amount to upward of two billion dollars—$679,532,928 on new passenger cars, $287,366,424 on new trucks, $831,790,158 on used passenger cars and $215,054,496 on used trucks—a total of $2,013,744,006. A considerable share of this business is handled by the leading manufacturers or groups of manufacturers; in fact much of the business as now conducted is thrown to finance concerns owned, controlled or favored by the respective manufacturers, although there is no reason why banks cannot successfully bid for the business.

From the records it also appears that 75.7 per cent of this financing is for 12 months or less, the remainder being largely for an 18-month term. The great mass of the business is done on a conditional sale basis. Such sales involved repossession by the seller or the finance company in 2.9 per cent of the new car transactions and 7.2 per cent of the used car sales. The average loss on new cars was ½ of 1 per cent; on used cars 1.3 per cent. The most serious element in these losses was "skips"—cases where the buyer of a car or truck ran off with it. Usually the cost of locating and recovering such cars is serious and in the case of old cars is not justified by the amounts involved. But since there was an average of only 3.3 of such cases in each thousand transactions they do not form a very serious factor in the business.

Some of the finance companies handling this business, including the larger and more responsible concerns, take paper only with recourse on the dealer; others require the dealer to accept part of the risk, while a larger number accept all or part of the risk without recourse, according to differentiated rates. Banks handle recourse paper only. Sales of new cars in 54.6 per cent of the cases involve instalment financing, the percentage in used cars being 58.1 per cent. Sales of new cars in 77.7 per cent involve trade-ins; of used cars, 47.8 per cent. In the complicated transactions involving the distribution of new cars it has been found that for every new passenger car sold there will be 1.596 trade-ins, while for every new car sold there will be .712 used cars sold. In other words, when a purchaser buys a new car and turns in his old car as part payment this involves the sale of the old car by the dealer, which in turn often involves the trade-in of another used car and so on down to the point where the last car traded in finds the junk pile. Seven and one-tenth per cent of all used cars traded in on purchases of new or old cars are junked.

The average note purchased in these transactions in 1934 involving new cars was $519, as compared with $516 in

1933, $546 in 1932 and $595 in 1929. Used car notes last year averaged $216, as compared with $220 in 1933, $241 in 1932 and $296 in 1929. Most sales contracts call for a down payment of 33½ per cent on new cars and 40 per cent on old cars, but last year 10.7 per cent of the new cars and 19 per cent of the old cars were sold with down payments below the percentages given.

Insurance of cars is required in practically all cases, usually against fire, theft and collision only, in the latter case with a $50 or $75 deductible clause. Most finance companies insist upon placing the insurance themselves. The large manufacturers own or control their own insurance corporations, while others practically control companies or have contracts with them of an advantageous sort. One result of this situation is that insurance companies which do not have such connections are disposed to cooperate more closely with banks which are entering the automobile financing field.

There has been a marked change in the financing policy of the leading automobile manufacturers in the past two years—in other words, since the beginning of the highly successful campaign to put the automobile industry on its feet. Up through 1933 and partly into 1934 the financing side of the business was operated more or less for profit. To stimulate the sale of new cars, however, the present policy is to keep the cost of financing as low as possible, and present charges, while actually highly profitable, are based substantially on bank rates for small personal loans.

What may be considered a typical transaction two years ago is indicated in the contract for the sale of a new car on a down payment of one-third of the selling price and 12 monthly instalments. In the case reviewed the credit of both seller and purchaser was unimpeachable. The car was sold under a conditional sales contract whereunder title remained with the dealer until the final payment had been made, the total unpaid balance became payable upon default in any one payment or in any other provision of the contract, with confession of judgment, seizure without demand and other drastic remedies provided for. The finance company had recourse upon the dealer. The cash sale price of the car delivered was $832. Its "total time price" was $921. The latter included $87.50 for "insurance, recording and finance". The down payment was $278, which was 34 per cent of the cash selling price. The amount to be financed, including insurance and other charges, was $643. This was amortized in 11 monthly payments of $54 and one payment, the last, of $49. Of this, $21.16 was for insurance against fire, theft, lightning, transportation and deductible collision. The financing, accordingly, cost $66.34, which represented a "recording fee" of $2 and 10 per cent interest on a discount basis.

At the present time the largest manufacturer operating through the same local company as the case above given is effecting this saving for the purchasers of its cars. According to the 1935 schedule the financing of a $640 unpaid balance on a purchased car, i.e., the amount to be amortized in 12 months, is $717.72 in equal monthly payments of $59.81. At slightly lower insurance this is a 6 per cent interest rate on a discount basis, or approximately 12 per cent on the money actually in use.

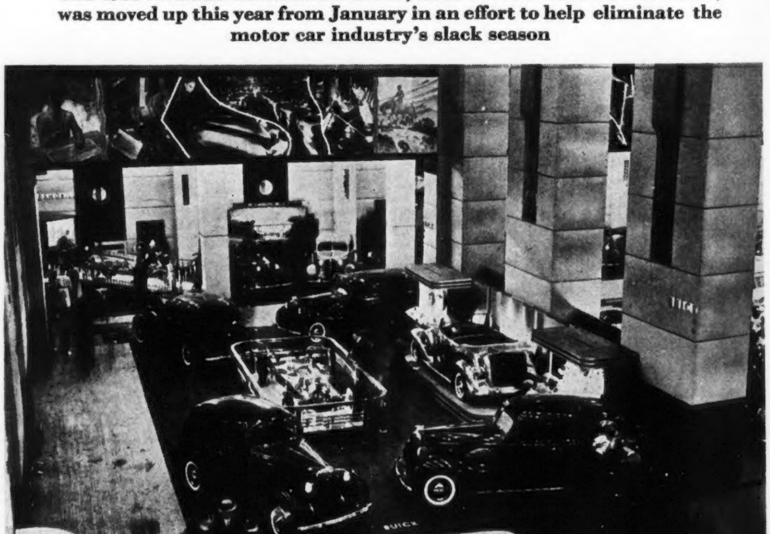
While responsible automobile manufacturers and dealers are lowering rates for financing through their own companies, a great part of the business, perhaps a quarter of the whole, is still in the hands of other financing concerns. There is a vast field to be developed by banks in competition with the independent financing companies, and there is no doubt also that they can compete on profitable terms with the finance companies of the great manufacturers.

Among responsible dealers and finance companies the instalment paper is sold with recourse, with the result that banks run almost no risk in such loans. Naturally this results in constantly decreasing interest rates, and where finance companies maintain higher rates a turn to banks is inevitable. From the standpoint of banks the chief difficulty has been in a lack of organization to care for instalment loans. The organization of personal loan departments overcomes this difficulty and there is not much doubt that, as banks develop the instalment home modernization and repair business under the Housing Administration, they can readily go a little further and adapt the same or at least a similar organization to automobile financing.

It has not been found necessary in most banks of medium size to employ additional or specially experienced help to handle such business, but it has usually been found necessary, or at least advisable, that the business be organized as a distinct department. Various expedients have been devised to minimize the labor involved in caring for such accounts, some along the lines of savings bank passbooks, others on a system of books of coupons, each coupon of which represents a monthly payment. Since these loans are usually repayable in equal monthly instalments within a definite period, they lend themselves to any one of several simple but effective systems of accounts. Once machinery for handling them is set up, its operation is simple, effective and inexpensive.

NEW CARS

The 1936 National Automobile Show, held in New York in November, was moved up this year from January in an effort to help eliminate the motor car industry's slack season



WIDE WORLD

Interest Rates on Savings Accounts

MUCH attention is being directed today to the rate of interest which banks should pay on their savings deposits. The importance of this subject to any individual bank increases as the ratio of savings to total deposits increases. In the majority of the banks throughout the country this ratio is considerably over 50 per cent. In such cases the interest paid amounts to between 40 per cent and 60 per cent of the total expenses, exclusive of losses. Therefore the control of interest paid is a very important one to the majority of banks.

There are many points involved in this problem, however. Principal among them is the theorem that the rate of interest which a bank can afford to pay is predicated upon the rate of interest which it can earn. The earning rates become of paramount importance in any discussion of interest rates paid.

From figures obtained from the published Federal Reserve report of June 1935, it is found that the earning rates of member banks have been steadily declining throughout the last decade, having decreased from 5.44 per cent in 1925 to 4.16 per cent in 1933, that being the last year for which figures are given in that particular report. This is an average decline in the yield from earning assets of practically 1½ per cent for all member banks of the Federal Reserve System. Even though the prohibition of interest on demand deposits was in effect for part of 1933, the margin between interest earned and interest paid was .26 per cent less in 1933 than in 1925.

The gross earning rate on the earning assets is the amount of interest earned divided by the average principal which produces that interest. It does not take into consideration any expenses, but expenses must be considered before it is possible to arrive at the amount available for interest. In a discussion of the interest rates, however, only those earnings and expenses applying to the interest-bearing deposits should be taken into consideration. Too frequently this important point is overlooked.

Certainly the expenses of non-interest bearing deposits have nothing to do with the rate of interest which should be paid on deposits that bear interest. To illustrate this point more clearly, statistics from four banks whose ratios of savings deposits to total deposits vary from a high of 84.93 per cent to a low of 19.22 per cent is shown in the table on this page.

To ascertain the earning rate on deposits it is first necessary to reduce the earning rate on the earning assets by the cash reserve rate. This is because it is impossible for any bank to invest 100 per cent of its deposits in earning assets. A certain amount must be kept in cash in order to meet the demands of its depositors.

The float in the deposits must also be considered. On the balance sheet of the average bank, float is included with the cash reserves. Neither the float nor the cash requirements of a savings department is as high as the float and cash requirements of a commercial department. For this reason the average cash reserve of the bank as a whole cannot be used.

The figures from Bank "C" well illustrate this point. It had cash reserves for the whole bank of 10.95 per cent of total deposits. The savings department reserves, however, were equivalent to only 7.62 per cent of savings deposits.

As will be noted, this bank had a gross earning rate on its earning assets of 4.63 per cent. But this percentage is not the one to apply against the deposits. If a bank earns 4.63 per cent on its earning assets and is carrying 10.95 per cent of its (CONTINUED ON PAGE 74)

	Gross rate on earning assets	*Cash reserve rate*	*Gross earning rate on deposits*	*Operating expenses exclusive of losses and interest*	*Balance available for losses, interest and profits*
BANK "A", 84.93% SAVINGS					
Interest paid, 54.97% of total expense					
Total deposits	4.67%	8.83%	4.26%	4.53%	* .27%
Commercial deposits	4.67	23.64	3.56	5.99	*2.43
Savings deposits	4.67	7.32	4.33	.85	3.48
BANK "B", 71.69% SAVINGS					
Interest paid, 48.92% of total expense					
Total deposits	4.71	10.15	4.23	2.89	1.34
Commercial deposits	4.71	24.60	3.55	5.03	*1.48
Savings deposits	4.71	7.68	4.34	1.18	3.16
BANK "C", 45.56% SAVINGS					
Interest paid, 40.96% of total expense					
Total deposits	4.63	10.95	4.12	1.89	2.23
Commercial deposits	4.63	26.80	3.40	2.42	.98
Savings deposits	4.63	7.62	4.28	1.27	3.01
BANK "D", 19.22% SAVINGS					
Interest paid, 21.68% of total expense					
Total deposits	4.85	14.75	4.13	1.77	2.36
Commercial deposits	4.85	19.86	3.89	2.19	1.70
Savings deposits	4.85	8.51	4.44	1.35	3.09

* Indicates deficit

The Month

WIDE WORLD

CONSTITUTIONALITY—In the picture above are two of the small reading desks at which the Justices sit while the Supreme Court is in session. It was here that the Court refused to pass on cases involving A. A. A. processing taxes and the Guffey Coal Control Act

HARRIS & EWING

EXPLORATION—Above, Captains Albert W. Stevens (left) and Orvil A. Anderson (shown in their balloon gondola) rose to a record altitude of 74,000 feet during an 8 hour 13 minute flight on November 11 Below, a cartoon from Mussolini's own paper, *Il Popolo d'Italia*, shows the official view of Italian motives in the war on Ethiopia

WIDE WORLD

SILVER—Ill feeling in the East was heightened when Japanese indignantly asserted that China's long-anticipated abandonment of silver had taken them by surprise. Above, a corner of the Tokyo Stock Exchange

The Condition of BUSINESS

CURRENT trade developments contain a clear promise that the Christmas season this year will compare favorably with 1928 and other famous predecessors. Inflation is already here, in spirit at least, and its effects thus far have been seductively pleasant.

As recovery advances, a major factor in the business outlook is the ability of Federal officials to make the new controls work. Can the pace of recovery be held within safe limits and prevented from reaching the point of recklessness? What are the limits of safety in such matters and will any Government official or bureau take the responsibility for trying to "discourage" the nation, which, after all, is what the control process amounts to. If the Federal Government in the exercise of its new powers with respect to finance, industry and agriculture, takes any action designed to curb optimism and check speculation, it will mean that President Roosevelt and his advisers have decided to tighten the reins. Obviously, therefore, the necessity for guessing the opinions and motives of Government officials becomes a matter of prime importance in appraising the business prospect.

BASIS OF OPTIMISM Present business recovery is predicated to a large extent on anticipation that the planned economy program will be modified in due course. It became apparent even before the last session of Congress adjourned that business in general was disposed to discount any further interference on the part of the Government and that it intended to proceed in its own way in the faith that it would be allowed to do so.

That disposition is now more than ever in evidence. The fact of the matter seems to be that, whatever may have been the original intent or purpose of the projectors of many of the laws constituting what is known as the New Deal and however comprehensive the control of business might have been had these original plans been permitted to come to fruition, the laws, as actually passed and as later modified by Congress or the courts or by administrative action in response to public sentiment, have fallen far short of the control of business originally contemplated. It may be admitted that there is quite enough control as matters now stand but such control is comparatively moderate and it is likely to be greatly modified by further court action.

Late Fall and Winter business, accordingly, starts upon a firm foundation. It faces just enough uncertainty and difficulty to temper its enthusiasm and hold it to a steady course and prevent one of those small booms which always result in a costly reaction. Some of its prospects depend upon artificial aids which can hardly be dispensed with at once without disaster but as improvement continues these aids can and doubtless will be gradually withdrawn. Vigorous retail business cannot result otherwise than in increased vigor in industry. There is no action or condition in sight which further threatens the well-being of banking and finance; there may well be action in the future which will materially benefit both. Business, banking, finance, industry, —all national activities—are on the way up.

BREATHING SPELL The great majority of persons today appear to be guessing that present progress toward recovery will not be seriously interfered with for the time being by any action on the part of officials in Washington. There is confidence that the breathing spell decreed on September 6 will continue for some time. A considerable degree of planned economy already exists under the new laws. Business is going to have an opportunity to watch the results.

Meanwhile, there is a disposition to make the best of present realities and to discount future trouble. There is abundant evidence that business in general no longer expects, hopes for or desires the complete elimination of controls at this time. What the average business man wants and will insist upon in due course is a moderation of restrictions.

A decision of the Supreme Court junked the N.R.A., but, on the whole, business itself saved those features of the system which were found to be helpful. The impact of the Securities and the Securities Exchange Acts upon financial

Particular Earning Assets as Percentages of Total Loans and Investments

(*Weekly Reporting Member Banks in 101 cities as of November 6; 000,000 omitted*)

	Total	*Boston*	*New York*	*Philadelphia*	*Cleveland*	*Richmond*	*Atlanta*	*Chicago*	*St. Louis*	*Minneapolis*	*Kansas City*	*Dallas*	*San Francisco*
Loans and investments—Total	$20,426	$1,146	$8,599	$1,098	$1,689	$595	$509	$2,669	$586	$381	$632	$451	$2,071
Loans on securities	14.9	15.5	20.1	15.2	14.0	11.4	10.4	9.24	10.7	8.4	7.6	9.1	8.45
To brokers, etc., N. Y.	3.9	.3	9.1	.5	....	....	....	.04	....	....	.3	....	.05
To outside N. Y.	.8	2.0	.7	1.2	.6	.5	.8	1.0	.8	.3	.5	.2	.3
To others (except banks)	10.2	13.2	10.3	13.5	13.4	10.9	9.6	8.2	9.9	8.1	6.8	8.9	8.1
Acceptances and commercial paper	1.6	3.6	1.7	2.1	.2	1.0	1.0	1.2	1.7	2.4	3.8	.2	1.2
Loans on real estate	5.6	7.6	2.8	6.2	11.2	3.4	4.1	2.4	6.7	1.3	2.4	4.7	18.0
Loans to banks	.4	.3	.5	.4	.4	....	.2	.4	1.4	.3	.9	.2	.05
Other loans	16.5	24.6	15.4	15.4	10.6	17.8	28.1	12.4	19.1	34.4	19.8	28.4	17.0
U. S. securities	40.3	32.7	40.6	26.0	44.9	46.7	34.4	54.6	35.8	37.0	38.6	36.4	31.9
Securities guaranteed by U. S.	5.6	1.7	4.8	8.6	4.4	6.7	7.5	6.0	8.5	4.7	8.2	11.3	6.3
Other securities	15.1	14.0	14.2	26.1	14.4	12.9	14.3	13.7	16.0	11.5	18.7	9.8	17.1
Ratio of total net primary reserves to net demand deposits—Per cent	28.4	33.7	29.0	23.2	27.8	29.0	20.0	32.1	27.4	24.2	21.8	21.5	24.2

markets was serious but common sense and sympathetic interpretation of the new system of controlling the issue and marketing of capital securities has so modified that impact that these measures are now accepted with comparatively little opposition, although this change of heart may be due in large measure to a realization that opposition would be in vain.

THE BUDGET The demand for a balanced Federal budget is virtually universal among business men, but few of the latter are willing to press the matter so far as to cut off necessary unemployment relief. They realize the impracticability of such a course at this time both because of its sociological effects and its reaction upon business. What they demand is that relief be cut to that which is absolutely necessary and that it be provided out of revenue raised for the purpose. Few of them face increased taxation with equanimity but an overwhelming majority would endure increased taxation in preference to a mounting deficit which entails augmented tax levies in the future and is demoralizing to investment and financial markets.

There is a similar attitude with respect to farm relief and its related problems. Condemnation of crop restriction is practically universal, except among the immediate beneficiaries, and even in the minds of the latter grave fears have been aroused.

On the other hand realists in both business and finance know that a sudden end to the present program is practically impossible unless it is succeeded by some other plan which may be no better and might be worse. What they are demanding is a more reasonable, a more moderate program, one capable of being tapered off as farm and political conditions make such a course possible.

Such also seems to be the attitude of the bankers of the country. In the mass they opposed deposit insurance as being contrary to all sound banking principles but, now that it has become a reality in a modified and conservative form, they accept it for the present and are making the most of it. They opposed Government control of the Reserve System but, now that such control is less radical than originally proposed and the bankers themselves have received a fair voice in the matter, they accept the situation and recognize that the new Banking Act, in many respects, has strengthened the Reserve System and the whole banking structure. The control of credit through manipulation of excess reserves is distasteful to many banks but the situation has become such that most of them now realize control is both necessary and inevitable and they accept any moderate action of the Reserve authorities to that end.

TRADE CONDITIONS Wholesale trade, generally, does not seem to be keeping up with retail activity, but the general outlook is such that merchants and the manufacturers who depend upon them will do a thriving business during the holiday season. Returns to the Department of Commerce show that industrial production and employment are now at their highest level since the autumn of 1930 although the increase in the latter has not been as great as in the former.

The automobile industry expects to put out 750,000 units in the final quarter of the current year, twice the number of the same quarter last year. This is partly due to the policy of offering new models in the Autumn instead of the early Spring but this is possible, of course, only because of the active demand for cars.

Building permits for October, the last month reported, register a peak for the past four years, the record being based largely upon home building which is carrying its activity into the early Winter as a result of the prevailing mildness of the season.

Above all, perhaps, the high level of prices for farm products is reflected in active buying by the recipients and the fact that the year's high record in the automobile industry has been made possible by automobile distribution in the agricultural states stands as a monument to the restored buying power of the farmer, concerning which the country has heard so much in recent years. All these conditions are reflected in the security markets. The only question about current share prices is whether or not the level is justified by corporation earnings.

For the first nine months of 1935 most of the leading business concerns showed a substantial rise in profits per share of common outstanding. To cite a few examples, American Rolling Mill earned $1.71 compared with $0.80; Continental Oil $1.19 against $0.93; Chrysler Corporation $5.95 against $2.17; General Motors Corporation $2.51 against $1.99; Pacific Telephone and Telegraph Company $4.80 against $3.84; Radio Corporation of America $1.95 against $1.14 (class B shares); Standard Oil Company of California $1.20 against $1.01; Timken Roller Bearing Company $2.41 against $1.24; United Carbon Company $3.43 against $2.53; and Western Union Telegraph Company $3.26 against $1.70.

Bank Debits to Individual Accounts

(1923–25 = 100; adjusted for seasonal variation)

	October 1935	*September 1935*	*October 1934*
Boston	72.4	73.8	64.6
New York (excluding New York City)	83.4	84.6	79.9
Philadelphia	77.1	75.9	61.7
Cleveland	71.3	72.9	59.9
Richmond	85.3	79.6	76.2
Atlanta	69.0	66.1	63.4
Chicago	82.7	83.5	69.8
St. Louis	75.4	70.4	63.3
Minneapolis	78.1	79.3	67.6
Kansas City	81.1	80.3	69.7
Dallas	92.9	89.2	82.2
San Francisco	95.3	93.0	77.7
Total (excluding N. Y. C.)	80.3	81.1	68.5
New York City	67.2	66.5	52.4
TOTAL—ALL	77.2	75.8	63.2

BALANCES, DEBITS Member bank deposits with the Federal Reserve banks increased $341,000,000 from October 10 to November 6, and "excess reserves" rose by $370,000,000. The principal factors responsible for the larger member bank balances were an increase in the monetary gold stock because of the large gold imports, and decreases in Treasury cash and deposits with Federal Reserve banks and non-member deposits and other Federal Reserve accounts. Money in circulation was the only offsetting item. "Excess reserves" did not increase so much as the member bank reserve account because of the sharp increase in demand deposits of the member banks.

Bank debits for those Federal Reserve districts which are chiefly agricultural showed greater than seasonal gains in October from the September level. The principal reasons for these gains were larger marketings of agricultural products, mainly crops, and the receipt of materially higher prices. Due to the lateness of crops this year, marketings were smaller than usual in September and thus swelled the total movement for October. The crop movement was especially large in the cotton districts as a result of the sharp increase in both the domestic and the export demand for cotton. The trend of debits in the Minneapolis district was an exception resulting from a reaction in grain prices after the first week of the month and the consequent decline in grain shipments.

The Philadelphia district was the only industrial center reporting a better then seasonal gain in bank debits. There several factors instrumental in causing this increase were: (1) The expansion of coal mine operations, (2) heavy tobacco purchases, (3) increased Government spending within this district, and (4) a small gain in trade. Primarily because of the shut-down of the automobile industry and the changing over to new models, the debit figures for the other industrial centers were lower during October. Wholesale and retail trade were both disappointing for the month. This situation was also reflected in the trend of bank debits.

For the nation as a whole, excluding New York City, the seasonally adjusted index of bank debits declined to 80.3 per cent of the 1923–25 average in October from 81.1 per cent in September. Including New York City, there was a small gain. It seems that the increased volume of activity in the security markets was the dominating influence in this instance.

NEW FINANCING The total of new financing in October amounted to $362,699,266, as compared with $435,762,924 in September. The decline is largely explained by the sharp drop in state and municipal issues. In comparison with September, the October figures were: corporate flotations—$252,395,232 against $275,853,920; state and municipal securities—$66,394,534 against $147,209,004; farm loan and publicly offered governmental agency issues—$38,961,500 against $12,700,000. During October refunding operations accounted for $217,184,932, or approximately 60 per cent of the total, in comparison with 61.1 per cent in September. Of the total corporate financing, new capital issues were $73,002,811, or 29 per cent of the aggregate, as compared with 16.4 per cent in September.

The outlook for corporate financing continues to be promising. The more favorable fundamental political and economic conditions appear at last to have broken the jam in the capital markets. We have had easy money conditions for a considerable time, but a large supply of credit and low interest rates alone were not sufficient; although these factors were favorable, their influence is passive in character. The demand for investment (plant and equipment) purposes is the dynamic force. A more stable political situation, improved basic economic conditions, and rising profits, are the essential elements underlying the improvement in the corporate capital market. At present these factors are more favorable than at any time during the last five years. As a result, activity in the capital markets should continue its upward trend, and the demand for new capital should assume greater importance during the next six months.

Total loans and investments of the weekly reporting member banks amounted to $20,426,000,000 on November 6. Government securities both direct and indirect amounted to 45.9 per cent of the banks' portfolio. The other major items were: loans on securities 14.9 per cent, other loans 16.5 per cent, and other securities 15.1 per cent. During the past four weeks all of these items, except Government securities, declined when expressed as a percentage of total loans and investments. The decline in loans on securities is partially explained by the exclusion of security loans to banks. Consequently, security loans showed a relative contraction in all but three districts. New York remained unchanged, but Cleveland and Kansas City increased. Richmond showed the largest decline.


Residences

INFLATION INSURANCE

CAN YOU AFFORD TO BE WITHOUT IT?

1006 WASHINGTON AVE.

Large single two-story with steam heat on unzoned corner, all paving paid. A tremendous bargain at

Building sites in lovely Vincennes Place, paving paid, $2500.

826-28 THIRD ST.

A four-room double, rent $24 per month. A give-away for $1200.

$4300 will buy two (2) dandy modern 4-room double cottages in very good section near bridge. Well rented and splendid condition.

Owner must sell lovely single two-story in State Street, very fine location, beautiful trees, two paved streets, all paving paid, $8750.

THIRD WARD

Four-room double cottage, hall in center, near Canal street. Good condition.

FROM A NEW ORLEANS NEWSPAPER

THE INFLATION MOTIVE

More and more frequently the "prospect" of inflation is used to spur buying

A National Program of Banking Development

"We shall ask for and welcome aid from everyone who believes that the strengthening of our private system of banking is essential to national progress. In particular we hope to bring the important work of the American Bankers Association and state banking organizations closer to the bankers of the country, to the end that banking service will be developed along sound lines and the public's newly recovered confidence in banks will be preserved."

—MR. FLEMING

THE year that is about to close has witnessed so important a clarification of the position of banks and banking that we should be able to make definitely constructive plans for the year that is about to open. The emergency which required an unusual degree of governmental participation in banking is practically ended.

At this time in 1934 our profession was faced with the uncertainties of legislation which, if we heeded the warnings of the extremists, was to be of a decidedly drastic character. We now have the advantage of knowing just what the new laws are, even if we have not yet had time to discover how they will work out in practice. The Banking Act of 1935, whatever its merits and demerits, has at least relieved our minds of the conjecture and uneasiness that beset us a year ago.

It seemed, indeed, as if this thought was uppermost in the minds of the hundreds of bankers who attended the New Orleans Convention of the American Bankers Association. As they left for their homes after four days of helpful analysis of current problems, the feeling seemed to be: We are going back to work, not to worry.

The program for the coming Association year is being drafted in accordance with this sentiment. The officers of the organization feel that many of the burdens their immediate predecessors had to bear have been lifted, thanks to the tireless persistence with which those men carried on the cause of sound, independent banking. The new officers are indeed fortunate in their inheritance of so strong a foundation whereon to build in 1936.

We have arranged to promote during the Association year now starting a series of general regional conferences which, while dealing with the many practical phases of bank activity, will stress public relations and customer relations. Banking is a business of human relationships. We deal not so much with money and credit as with people. Furthermore—and of greater importance—we serve people; we help them help themselves. This is not said in a spirit of lofty, impractical idealism; it is a simple truth.

Perhaps bankers in the past have not been sufficiently conscious of the fact that they are actually engaged in a form of real public service. But we know that it is not enough to be technically good bankers. We must be public-conscious in our good banking. We must realize that public understanding of and sympathy with a bank's aims and problems are just as essential to the soundness of its structure as are good loans and investments. We have had ample proof that the best assets in the world are vulnerable if the people lose confidence in their banks and the men who operate them.

So, while this series of conferences will deal fully with all fields of practical operation—commercial banking, savings, and trust work—they will emphasize the importance of infusing their daily routine with a spirit

U. & U.

By **ROBERT V. FLEMING**

President of the American Bankers Association

of public service and of finding ways to aid people to understand banking functions and the requirements of our profession. We must, it seems, take the mystery out of banking.

To aid in accomplishing this purpose we will load our Association's regional conferences heavily with material on customer relations, public relations and publicity. We will have forums devoted to these as well as to problems of management, operation and economics. Capable speakers will discuss, analyze and explain them. The men in the banks whose duties bring them into contact with such matters will have opportunities to get together and help each other develop the best ways of strengthening our contacts with the people we serve.

This does not mean that we contemplate a gigantic campaign of high-pressure publicity designed, borrowing a threadbare phrase, "to re-sell banking to the public." We neither want nor need such a program. What we seek, rather, is the most effective means of doing our daily jobs at our individual banks and building a solid foundation for practical understanding between the banks and their respective communities.

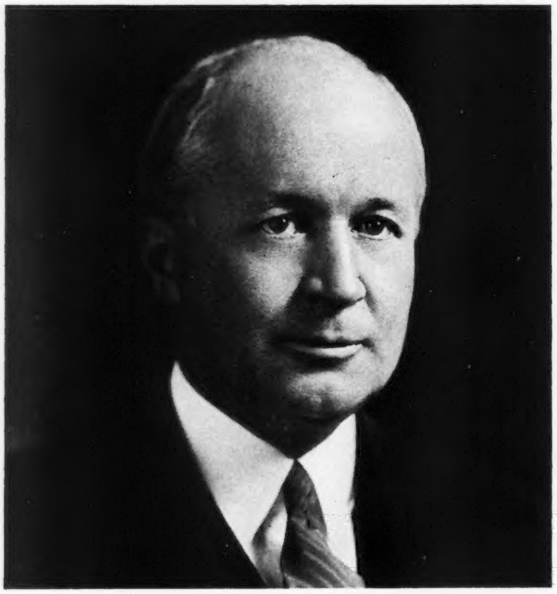
The best possible publicity is to be found in careful, complete, and intelligent service, regardless of whether that service is positive—that is, the granting of loans, the administration of trusts—or negative, as in the case of loan application refusals. Unfortunately, the community never knows how well it may be served when a bank declines to lend to a prospective borrower who, for one reason or another, does not meet its requirements. But part of our job is to explain—not defend—our position with respect to credit extension.

I know of no way in which the American Bankers Association can better aid banking to perform its high public duties, or how bankers can better help themselves and play their full part in community life, than for all to pull together to make these conferences outstandingly successful.

Necessarily, our plans for the actual programs are still incomplete, and it is possible at this time merely to suggest their scope, leaving specific details for later announcement.

First and foremost we hope for the cooperation of all bankers and all elements of organized banking. The task of carrying forward this program will be too great for any individual or any single group.

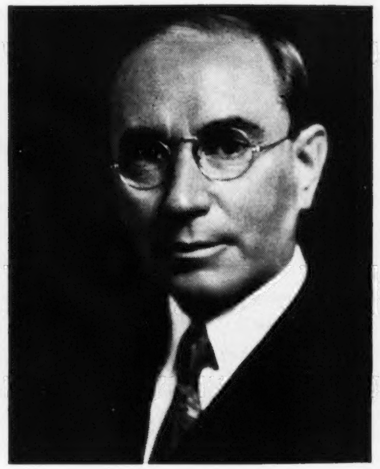
We shall ask for and welcome aid from everyone who believes that the strengthening of our private system of banking is essential to national progress. In particular we hope to bring the important work of the American Bankers Association and state banking organizations closer to the bankers of the country, to the end that banking service will be developed along sound lines and the public's newly recovered confidence in banks will be preserved.



TOM K. SMITH, First Vice-President of the American Bankers Association and president of the Boatmen's National Bank, St. Louis

WIDE WORLD

ORVAL W. ADAMS, Second Vice-President of the Association and executive vice-president, Utah State National Bank, Salt Lake City



Above, left to right: Carl W. Allendoerfer, President, National Bank Division and executive vice-president, First National Bank, Kansas City, Missouri; Philip A. Benson, President, Savings Division and president, Dime Savings Bank, Brooklyn, New York; Arthur B. Taylor, Treasurer of the Association and president, Lorain County Savings and Trust Company, Elyria, Ohio. At the left, Fred B. Brady, President of the State Bank Division and vice-president, Commerce Trust Company, Kansas City, Missouri; at the right, Merrel P. Callaway, President, Trust Division and vice-president, Guaranty Trust Company, New York

American Bankers Association

REPORT OF THE RESOLUTIONS COMMITTEE

AT THE NEW ORLEANS CONVENTION, NOVEMBER 14

The Business Situation

PREVAILING business sentiment in the United States today is one of conviction that recovery is making vigorous progress. There have been large increases in the consumer purchasing power of great portions of the population and broad recovery in production in those lines which supply goods widely purchased at retail. These developments have clearly stimulated many lines of industrial activity and helped create widening business confidence.

On the other hand, there has been but little decrease in widespread unemployment and the total volume of industrial production has not advanced during the year. These adverse conditions characterize particularly the heavy industries and construction that are normally financed by new investment funds, the flow of which still suffers an almost complete cessation in this country, although there is an abundance of private capital awaiting opportunity for employment.

It is our opinion that a concentration of effort on the part of both government and private business initiative in stimulating the flow of new capital issues for private undertakings in these still depressed portions of our national economy is essential to bring about a balanced recovery in all lines and resultant important decreases in unemployment.

On behalf of banking we are able to report a complete restoration of public confidence. This has put it in the position where it can function fully and vigorously in playing its full economic part in the progress of recovery. The passage of a generally constructive banking law in the Banking Act of 1935 has stabilized the banking situation and enabled bankers to devote undivided attention to the normal administration of their institutions in promoting the business and public welfare of their communities. We feel that it is a particularly important feature of this law that it aims to create through the revision of the Federal Reserve Board a Supreme Court of Finance which, with the non-political appointment of exceptionally competent men, should constitute one of the greatest forward steps in building a sound banking and credit system for this country.

RETIREMENT OF GOVERNMENT FROM BUSINESS

WITH the passing of emergency conditions from a large portion of our national economy, and with increasing evidence that the full restoration of industrial enterprise under private finance and initiative is essential to complete the return of recovery, we believe the time is at hand for recognition as a matter of national policy of the need for the retirement of the Federal Government as rapidly as possible from the field of control and operation of the nation's industrial, commercial and financial enterprise into which it has entered so widely.

It is our conviction that preponderant public opinion in this nation is against any form of socialization of our national industry, commerce or finance. We believe that the only fundamental cure of unemployment is through the stimulation of reemployment by the removal of unjustified barriers to the free play of private enterprise and individual initiative.

THE GOVERNMENT IN BANKING

WE particularly emphasize the desirability of the retirement of government from those fields of extending credits of various types which can be adequately served by privately owned institutions. We recognize that the exigencies of the now passing depression made necessary a large participation by government for a time in the task of meeting the public's emergency financial needs. We believe those conditions have been largely remedied and that the obligation now rests upon the banks and other financial agencies to demonstrate to the people of this country that they are fully able and willing to meet all demands upon them for sound credit cooperation. It is our duty as bankers to facilitate in every effective way the retirement of Government agencies from credit activities by promoting public understanding of the proper function of privately owned banking.

GOVERNMENT EXPENDITURES

WE believe that one of the most serious dangers confronting the nation today is the illusion which appears to be widespread among portions of our people that Government expenditure is of itself a cure for economic ills. There are well defined though limited fields within which government expenditures are justified. While the deficits of the past six years, which have carried our direct national debt to a total of 29 billion dollars, in part have been justified by efforts to relieve human suffering and deprivation, this should not be allowed to obscure the fact that definite efforts to return to a balanced national budget should be the prime consideration of sound national fiscal policy. We believe that this procedure is now the surest way of relieving human suffering and deprivation, chiefly because of the stimulus and confidence it would give to private industry and trade whose normal activities should be the fundamental source of employment and security.

TAXATION

THE increase of taxes, both Federal, state and municipal throughout the nation, is an outstanding public problem

from which no class of our people ultimately can remain exempt. While a large portion of the increase in the burden of taxes since the depression has been caused by efforts to relieve misfortune resulting therefrom, it is also a fact that, apart from this, the costs of our multiform government have in many cases long been unduly increasing. Factors in this have been the increase in functions and activities assumed by government, the relatively high costs of such operations when performed under government auspices, the inevitable wastefulness of bureaucratic organizations and the increasing demands of the public upon government. Unless the upward trend of taxes is curbed, they will constitute such a heavy burden as to repress individual initiative and enterprise, and thereby increase the very types of human misfortunes which they in so large part are aimed to relieve. In the long run the burden of taxes must fall not upon any one class but upon all classes and they therefore constitute a problem and a menace for all our people.

POSTAL SAVINGS

WE endorse the statement of President Hecht in his address to this convention that the competition of the Postal Savings System with privately owned banks through the relatively high interest rate and liberal withdrawal privileges allowed its depositors is inequitable. Every depositor can now get insurance for his deposits up to $5,000 and we feel the need for the Postal Savings System has really passed, except perhaps in such communities as do not enjoy other banking facilities. A serious effort should therefore be made at the coming session of Congress to at least modify, if not abolish, the law governing the Postal Savings System.

RESTRICTION ON BANK CHARTERS

WE are also wholly in accord with President Hecht's statement, in his address before this convention Tuesday [November 12], relative to the necessity of limiting the chartering of new banks rigidly in accordance with the economic needs of the country. Every effort should be made by bankers, and they should enlist the support of public opinion, to prevent a new over-production of banks through the indiscriminate chartering of new banks in places which are either not large enough to support a bank or in which there already are available sufficient banking facilities to take care of their reasonable requirements. We commend those provisions of the Banking Act of 1935 which give the Federal Deposit Insurance Corporation new authority to determine whether there exists an economic necessity for the creation of a new bank before a newly chartered institution shall be admitted to the benefits of the Insurance Fund. We believe the banking profession should give the Corporation the fullest cooperation in this connection at all times.

RAILROADS

WE approve the action of the Reconstruction Finance Corporation in making loans to the railroads for the purpose of carrying on their essential services and urge the continuation of the policy of thus extending financial aid when necessary. We approve reasonable regulation of those agencies of transportation which compete with the railroads in order that such competition shall be on a fair basis. We approve the efforts of the Federal Coordinator of Railroads to bring about true coordination of railroad services, to eliminate so far as possible duplication of facilities, and to reduce the costs of operation. We believe that this great industry should be assured by wise laws that burdens of expense shall not be put upon it while its income is restricted by rigid regulation of rates. It is fundamental that, while any utility should be regulated in the public interest, it must be given the opportunity to collect the cost of the service rendered, including a fair return on the capital invested. We urge a liberal attitude towards the railroads for the good of the employee, the investor, and the maintenance of conditions insuring the safety of public travel.

THE RESOLUTIONS COMMITTEE:

Francis Marion Law, president, First National Bank, Houston, Texas, CHAIRMAN

C. W. Allendoerfer, Vice-President, National Bank Division; vice-president, First National Bank, Kansas City, Missouri

Philip A. Benson, President, Savings Division; president, Dime Savings Bank of Brooklyn, N. Y.

Fred B. Brady, President, State Bank Division; vice-president, Commerce Trust Company, Kansas City, Missouri

Merrel P. Callaway, Vice-President, Trust Division; vice-president, Guaranty Trust Company, New York City

Henry Verdelin, Vice-President, American Institute of Banking; First Service Corporation, Minneapolis, Minnesota

David M. Auch, Vice-President, State Secretaries Section; secretary, Ohio Bankers Association, Columbus, Ohio

Leonard P. Ayres, Chairman, Economic Policy Commission; vice-president, Cleveland Trust Company, Cleveland, Ohio

H. Lane Young, Chairman, Agricultural Commission; executive manager, Citizens & Southern National Bank, Atlanta, Georgia

Orval W. Adams, Chairman, Bank Management Commission; executive vice-president, Utah State National Bank, Salt Lake City, Utah

Fred I. Kent, Chairman, Commerce and Marine Commission; director, Bankers Trust Company, New York City

Frank M. Totton, Chairman, Public Education Commission; second vice-president, Chase National Bank, New York City

Robertson Griswold, Chairman, Committee on Taxation; vice-president, Maryland Trust Company, Baltimore, Maryland

Ronald Ransom, executive vice-president, Fulton National Bank, Atlanta, Georgia

Max B. Nahm, vice-president, Citizens National Bank, Bowling Green, Kentucky

Andrew Price, president, National Bank of Commerce, Seattle, Washington

Thomas F. Wallace, president, Farmers & Mechanics Savings Bank, Minneapolis, Minnesota

John G. Lonsdale, chairman of the board, Mercantile-Commerce Bank & Trust Company, St. Louis, Missouri

Gurden Edwards, New York, N. Y., Secretary

Mortgages and Modernization

By H. G. BALDWIN

The author is assistant vice-president of the Washington Mutual Savings Bank, Seattle

ABOUT eight months ago, the Washington Mutual Savings Bank of Seattle became qualified to make F.H.A. Title I unsecured loans, insured by the Federal Government. F.H.A. regulations require Title I loans to be repaid in equal monthly instalments within a period of five years.

In entering the field, this bank decided to charge borrowers a maximum rate of 7 per cent interest computed on reducing monthly balances, instead of the 9.7166 per cent authorized by the Federal Housing Administration. A letter was sent to all its home loan borrowers in good standing, inviting applications for loans up to $2,000 for repairs, modernization and general improvements. At once requests began to pour in. The result was that many homes, on which the bank had mortgages, were freshly painted, new roofs were laid, concrete foundations were put in, attics were finished into rooms for growing youngsters, hardwood floors were put down, new plumbing, heating and air-conditioning plants were installed and garages were built.

Immediately the effects were felt in all branches of the construction industry. Men were put to work. Architects, contractors, carpenters, plasterers, plumbers, concrete workers and heating engineers were among those favorably affected.

In numerous instances the dressing up of a house inspired neighbors to follow suit, many of whom were able to finance the work from their own funds. Brightening up the home became contagious and spread throughout entire neighborhoods. In a surprising number of cases borrowers submitted statements showing more cash on hand than the amounts they sought to borrow, preferring to budget their improvements in monthly instalments and retain their savings accounts for emergencies.

Handling a substantial volume of new loan business of this character has been a pleasure to the bank's staff, because the business is sound and constructive.

Participation in Title I loans has not only materially increased the bank's margin of security where it already holds the first mortgage, but it makes the owner and his family more contented with their property.

In addition to sending personal letters to the bank's own borrowers, a series of advertisements was inserted in

". . . many homes . . . were freshly painted, new roofs were laid, concrete foundations were put in, attics were finished into rooms . . ."

One of a series of advertisements which appeared in Seattle newspapers

Automatic Refrigerators For Seattle Homes Easily Financed

Example:

With a Loan secured from this Bank, a modern Automatic Refrigerator costing, say, $150, can be paid for at the rate of $4.64 per month (including interest) and the Loan will be paid in full in 36 months

THIS Bank makes Loans to finance all types of home repairs and improvements, AT LOWEST RATE. Anyone in our Loan Department will gladly give you full information and, if you decide to borrow, will help you prepare your application.

local newspapers designed to stimulate interest in home modernization. One week the advertisement would feature the desirability of modern plumbing. Copies of this advertisement were mailed to all dealers in good quality plumbing material and to reliable contractors, with the statement that if they endorsed this kind of advertising, we would be glad to repeat the appeal in future newspaper advertisements. The cordial cooperation of the material men and contractors was secured, and much desirable business has since been received through them.

Other advertisements in the series invited attention to the importance of a good roof, or a sound foundation. Each advertisement contained an example, showing how easily the desired work could be financed and how many months would be required for a given monthly payment to liquidate the loan in full. In the advertising campaign attention was given to oil burners, coal stokers, refrigerators and other devices calculated to add comfort and convenience to home life.

A pamphlet was prepared which briefly outlined the kinds of work qualified for this type of financing and gave a table by which one could readily determine the number of months required for various payments to liquidate amounts from $100 to $2,000. Thousands of these pamphlets were mailed out and were widely used by material men to assist in selling their commodities.

The benefits of the Title I loans secured were far-reaching. The bank acquired good investments, men were put to work, money flowed more freely and local business was stimulated. For example, a local manufacturer of a low-priced but very efficient coal stoker had a small plant employing eight men last year. This same plant now employs 56 men at good wages. This bank alone has made 163 advances to borrowers to install these stokers, involving approximately $30,000.

Further public interest was developed by two miniature model homes set up in the bank's lobby. They are complete in every detail, even to tiny hand-split cedar shingles, copper down-spouts, lawn, trees, shrubs and flag walks. These models are electrically lighted, and one is equipped throughout with tiny furniture built to scale, including plumbing fixtures.

To date this bank has made more than 1,200 Title I loans, the original amount of which totaled over $556,000, the present unpaid balances as of October 21, 1935, being approximately $513,000. As instalments on these loans are paid, the ratio of insurance credit to the unpaid balance is, of course, constantly increasing.

Before any of these loans are made, a member of the bank's loan staff meets the applicant and discusses the application over the bank's own loan counter. No Title I loans are purchased from finance companies, and in all cases the bank's note is signed by the applicant and his wife at the bank.

It is felt, however, that losses in this type of business will be very small. A careful investigation of the applicant's credit standing is made, and the holder of his mortgage or contract is interviewed. The borrower must be regularly employed by a sound concern, and the total amount of his debts must not be out of line with his income.

Out of 1,200 Title I loans, there were only two as of October 21, 1935, on which payments were not exactly on schedule. In the cases referred to, the borrowers paid their current instalments, and were in arrears only because of changing employment.

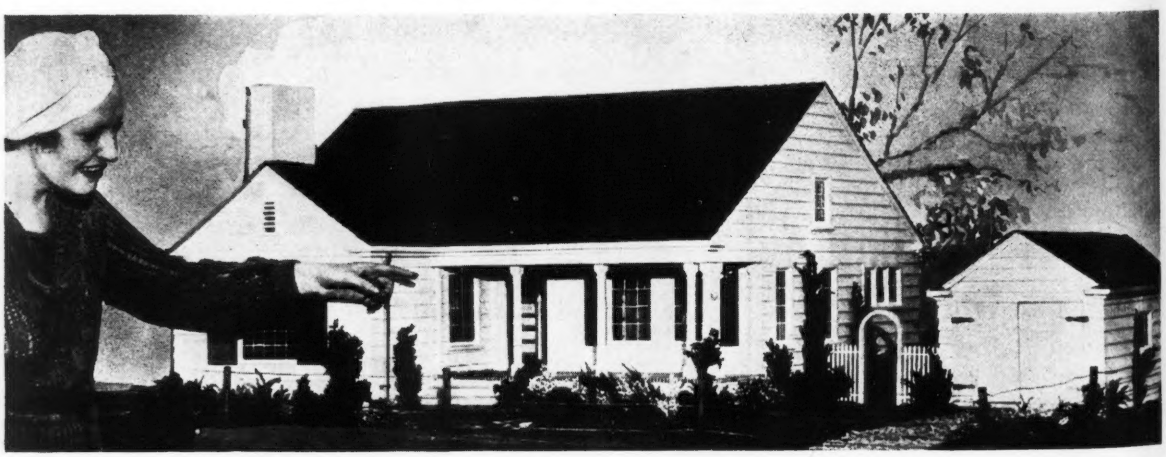
One reason there have been so few delinquencies is that the borrowers are definitely impressed with the necessity of promptness. When the check for the loan proceeds is delivered, there is attached a card setting forth the importance of care in meeting the monthly payments promptly, and referring to Government regulations concerning this type of loan.

Occasionally it is necessary to discourage a prospect who has been oversold by an overzealous salesman. The bank will not knowingly permit a borrower to get beyond his depth. In a very considerable number of cases, the bank has, through its Title I loan contacts, been able to secure desirable first mortgage loans. Where advisable, first and sometimes second mortgages are taken as further security for Title I advances. In some instances, responsible dealers agree to repurchase the paper in case of trouble.

There is a rather acute shortage of modern desirable homes in Seattle, and considerable activity is being experienced in new mortgage loans to assist in the construction of new homes. A very noticeable increase is also shown in the sale of residence properties.

This bank, in September 1935 alone, made 233 Title I loans, totaling $86,734.41; 26 Title II loans in the sum of $69,784; 44 residential mortgage loans, amounting to $104,741; and 6 business property mortgage loans, amounting to $142,769. A total of $404,028.41.

A miniature house that was set up in the bank's lobby



Government Competition with Banks

Washington, D. C.

ON September 30 last the outstanding loans of corporations and credit agencies of the United States Government, not including subscriptions to preferred capital stock or debentures or other advances to private interests, which in most cases are loans by another name, aggregated over half of the total outstanding loans of all commercial banks in the country.

The loans of the credit agencies wholly financed by the Government amounted to $2,294,785,927. Those of the agencies partly financed by the Government and wholly in its control aggregated $5,985,054,435. The total was $8,279,840,362. On June 30 loans of all banks in the Federal Deposit Insurance Corporation, including 63 mutual savings banks with loans of $539,253,000, amounted to $14,509,590,000.

It is this situation which has again precipitated a discussion of the advisability or the imperative necessity, according to the light in which the matter is regarded, of getting the Government out of the banking business and getting the banks back into the lending business. Present discussion of this important issue has been complicated somewhat by a general movement on the part of governmental agencies toward a lowering of current interest rates on loans as a means of increasing the use of idle funds in the banks.

STATUS OF COMPETITORS

IT may be well to note, primarily, that approximately 40 per cent of the outstanding loans are those of permanent credit institutions of the Government, especially those in the farm credit and the home loan bank systems. Approximately 30 per cent more are in semi-permanent agencies such as the Home Owners' Loan Corporation which, while established to handle an emergency, has 15 years in which to handle it. Such also is the position of the Public Works Administration and the Shipping Board. The R.F.C. may be counted as a temporary agency although it has 10 years in which to wind up its business. The Federal Farm Mortgage Corporation may be listed as a permanent institution since its business is being or will be gradually merged into that of the Federal land banks.

There remain the Commodity Credit Corporation which functions in connection with the R.F.C. and will probably disappear as its parent corporation is liquidated, and the Regional Agricultural Credit Corporations which are already being merged into the permanent farm credit system. Both of these latter corporations handle business which can be and at times has been handled in part at least by commercial banks. In a general way it appears that getting the Government out of the banking business depends less upon getting rid of temporary governmental loan agencies than a restriction of the activities of its permanent credit institutions.

R.F.C. ADVANCES

THE R.F.C., for example, had net loans —as distinguished from advances to governmental agencies, subscriptions to capital stock and the like—amounting to $1,443,009,298 on September 30. Its subscriptions to capital stock and similar advances to private interests totaled $874,452,805, and other accounts and receivables lifted its total outstanding private credit to $2,356,090,116. How far the R.F.C. can be counted as placing the Government in the banking business, accordingly, depends largely upon viewpoint. Since banks are the chief recipients of capital advances they can best get the Government out of this business by retiring such capital. Banks also owed the corporation $455,533,005, more than half of which was owed by a few large banks. It hardly seems possible that other banks can take over any of these loans although under present rediscount rules the Reserve banks might handle many of them.

Railways owed the corporation $441,109,283. In considering this item one enters upon debatable ground. Banks have had the opportunity of lending the railways this money; some of it, indeed, has been advanced in connection with bank loans. But the banks have refused to advance the money in most cases and the general railway situation has been offered as ample justification for their refusal. The R.F.C. has been nipped on some of these loans although the collateral as a whole had a market value of 160 per cent of the loans as far back as last January and has doubtless greatly increased since that time. Probably the collateral back of loans to 11 roads, which was deficient at that time, has recovered substantially.

How far these advances to the carriers can be considered bankable is one of these matters of judgment and bank policy which can be safely passed upon only in each case and even then not without sincere differences of opinion. Discussion of questions of railway management by banks or the R.F.C. has not served to clarify or improve the situation. At all events, in spite of what seems to be ample security, banks have indicated no disposition to rush in and take these loans off the hands of the corporation nor do they show much disposition to furnish the railways with more money, which seems to be absolutely necessary and which no doubt the R.F.C. will advance in due time.

ARE THEY BANKABLE

MUCH the same can be said of loans to other interests. Mortgage loan companies owed the corporation $130,502,656, insurance companies $47,245,987, building and loan associations $8,954,441. Crop, livestock and commodity loans totaled $22,702,265 and there was a miscellaneous lot of loans aggregating about $240,000,000. All these loans, under the law, are "adequately secured." Just how many or how much of them would be bankable under new rediscount rules can probably be known only by investigation.

There seems to be no question that at least a predominant part of the loans held by the P.W.A. represent sound bank investment. Sales of municipal and other securities taken by the administration for advances for public works have already reached a total of over $100,000,000 and have brought premiums averaging over 3 per cent. Approximately $120,000,000 more of such securities are in course of sale through the R.F.C. and many issues are being taken over by banks or other investors direct from the borrowers without passing through the P.W.A. and the R.F.C. as its sales agent. It is evident that there is a considerable field of investment (CONTINUED ON PAGE 46)

(Continued from page 44)

for banks in these securities but it is also evident that banks and other investors are responding to the opportunities offered.

The real issue between the Government and the banks in the loan business, in keeping with the general feeling that no government should use its credit for private purposes save under the most exceptional circumstances, is in the Government's operation of its permanent credit institutions, of which the farm credit system is the outstanding example. In the competition between Government and private capital in these agencies the matter of interest rates charged has become the crux of the issue. Under the Banking Act of 1935 banks can make real estate loans on a 20-year amortization basis in two bites, and in this phase of the business can compete with the Federal land banks. In the matter of interest rates, however, banks have no chance whatever for the business of owner-occupied farms or farms to be occupied by a purchaser. The land banks have been selling bonds on the basis of 3 per cent interest, and since they can charge no more than 1 per cent additional on their mortgage loans the present basic rate cannot exceed 4 per cent. Under acts of Congress amending the Farm Loan Act, borrowers from the banks are to pay no more than 3½ per cent interest during the current fiscal year and no more than 4 per cent during the two succeeding fiscal years, and Congress appropriated the money necessary to reimburse the banks for the loss of interest. As a slight set-off to these advantages a borrower, to obtain these rates, must subscribe to stock in a national farm loan association to the amount of 5 per cent of his loan, but in most cases these stock subscriptions represent at least substantial if not par value.

RECENT TENDENCY

IN recent months farm credit has run increasingly to short term credit peculiarly within the scope of straight commercial banking. These loans are worked out through the banks for cooperatives and the production credit corporations and associations. The banks for cooperatives lend money to cooperative associations along the lines of the old Federal Farm Board's operations in which commercial banks had a considerable share of the business. Operating with the remnants of the Farm Board's $500,000,000 revolving credit the Central Bank for Cooperatives makes loans of from $500,000 up to large cooperative associations at rates which may not exceed 6 per cent but which in actual fact now range from 2 per cent for commodity loans to 3 per cent for operating capital loans and 4 per cent for "facility" loans—long term loans for the construction of marketing facilities. Smaller loans to cooperatives are made by the district banks for cooperatives at the same rates.

Production loans, made by production credit associations under the capital control of production credit corporations established in each land bank district, are designed to take the place of those furnished by the regional agricultural credit corporations which were originally organized by the R.F.C. They operate in connection with the intermediate credit banks. Since the latter can now sell their debentures at a rate which enables them to fix their discount rate at 2 per cent or better and an original borrower cannot be charged more than 3 per cent above the intermediate credit bank discount rate, the maximum interest which the production credit associations can now charge is 5 per cent.

Loans of this class are in some degree character loans in which all members of the production credit association practically become guarantors for the borrowers. Few banks could afford to risk such loans for anything like the 5 per cent rate. Moreover, under the system established last Spring, a farmer borrower is allowed to establish a line of credit with the association and, through the latter, ultimately with the intermediate credit banks, and to draw upon this credit as needed, paying 5 per cent annual interest only on the amount of money actually used and for the time it is used. A borrower must subscribe to stock in the production credit association to the amount of 5 per cent of his loan but this stock can usually be transferred upon repayment of the loan.

BANKS' ADVANTAGE

NEVERTHELESS; there is usually considerable delay in putting through loans of this class; the 5 per cent stock subscription represents a disadvantage in connection with a short term loan; many farmers are indisposed to submit their financial requirements to the judgment or criticism of their neighbors represented in the credit association; and banks have a distinct advantage in this class of business provided they can meet the interest rate issue.

Some phases of the home loan bank system and the various housing undertakings are objectionable to bankers and other investors. Government investment in national savings and loan associations, for example, is putting public funds into competition with savings and other banks in home construction. Government construction of low cost housing in slum clearance and otherwise competes with private capital. The answer to this, of course, is for private capital to take the initiative. Objection to Government investment in the long string of enterprises connected with or similar to the Tennessee Valley development is more fundamental since the latter are permanently socialistic. In credit for housing, the objection is directed more to the matter of low interest and lending conditions.

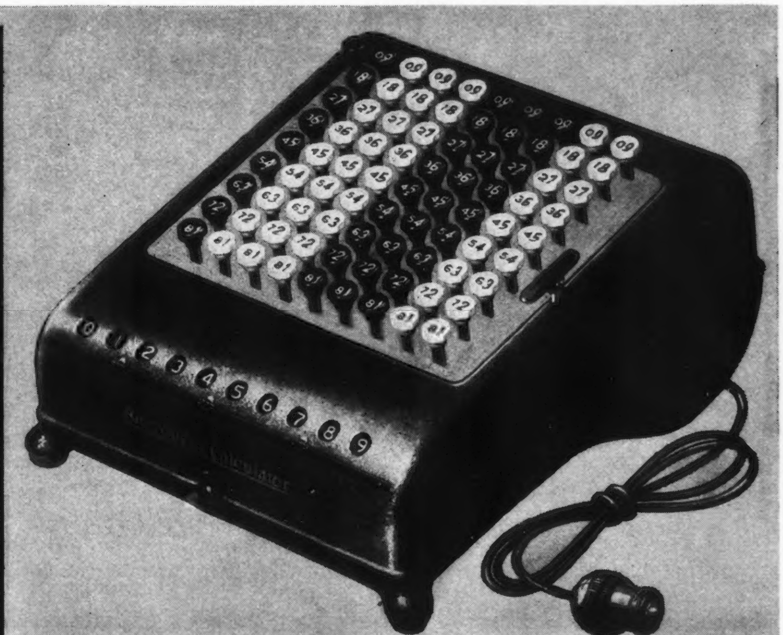
The interest rate phase of the whole issue of bank or Government loans is far more complicated than the policy of Government lending agencies indicates. On the face of things it appears that banks cannot compete with the Government agencies in long term loans except in those classes which are not within the scope of the Government's system, such as tenant-occupied farms. In short term loans the Government's interest rates are usually lower than current bank rates but the discrepancy is much greater in some localities than in others. Government rates are more or less uniform throughout the country while bank rates, suited to local risks and local conditions, must naturally vary according to the latter. Whatever additional risk the Government may run in districts where credit risks are high can be covered by lower risks in other parts of the country.

George E. Anderson

"It must be realized that the Government is already too far committed in some lines, particularly in the major features of farm and home building credit, to draw back without tremendous loss not only to itself but to a vast net work of private interests inextricably woven into the Government system. In some important phases of finance and possibly in some phases of industry the Government undoubtedly is in business to stay."

Burroughs
ELECTRIC CALCULATOR

FOR SPEED AND ACCURACY



FOR THESE BANK JOBS

Figuring and checking savings interest

•

Figuring Float

•

Determining average collected balances

Analyzing accounts

Figuring service charges

•

Figuring and checking interest on notes, bonds and mortgages

Banks save time, reduce mental fatigue and assure accuracy on today's increased volume of calculating, by using Burroughs Electric Calculator. They find this machine extremely valuable in reducing the peak load at the interest period, and on scores of jobs around the bank throughout the year.

Burroughs Electric Calculator is fast and easy to operate. The key touch is light and uniform—the "9" key is depressed as easily as the "1." Each key always registers its full value on the dials, because the motor does the work. Investigate this machine to see how it speeds and simplifies figuring. Call the nearest Burroughs office for a complete demonstration.

BURROUGHS ADDING MACHINE COMPANY, DETROIT, MICHIGAN

ADDING, ACCOUNTING, BILLING AND CALCULATING MACHINES
CASH REGISTERS • TYPEWRITERS • POSTURE CHAIRS • SUPPLIES

CALENDAR

A.B.A. Division Officers

FOLLOWING are the names of the officers elected for the ensuing year by the various divisions of the American Bankers Association at the New Orleans Convention:

National Bank Division—President, Carl W. Allendoerfer, executive vice-president, First National Bank, Kansas City, Missouri; Vice-President, William F. Augustine, vice-president, National Shawmut Bank, Boston; members of the Executive Committee to serve three years: representing the First Federal Reserve District, James W. Knox, president, First National Bank, Hartford, Connecticut; Eighth Federal Reserve District, Captain William Nichol, vice-president, Simmons National Bank, Pine Bluff, Arkansas; Ninth Federal Reserve District, William N. Johnson, vice-president, Northwestern National Bank and Trust Company, Minneapolis; Eleventh Federal Reserve District, Melvin Rouff, vice-president, Houston National Bank, Houston, Texas.

Savings Division—President, Philip A. Benson, president, Dime Savings Bank, Brooklyn, New York; Vice-President, Noble R. Jones, manager, savings department, First National Bank, St. Louis; member of Executive Committee for one-year term, W. W. Miller, president, Bloomfield Savings Institution, Bloomfield, New Jersey; members of Executive Committee for three-year term, E. K. Woodworth, president, New Hampshire Savings Bank, Concord, New Hampshire; A. George Gilman, president, Malden Savings Bank, Malden, Massachusetts; H. E. Blair, vice-president, City National Bank & Trust Company, Oklahoma City.

State Bank Division—President, Fred B. Brady, vice-president, Commerce Trust Company, Kansas City, Missouri; Vice-President, H. M. Chamberlain, vice-president, Walker Bank and Trust Company, Salt Lake City, Utah; members of Executive Committee for two-year term, Harry A. Brinkman, vice-president, Harris Trust & Savings Bank, Chicago, and Brewer D. Phillips, chairman of board, Bank of Jamestown, Jamestown, New York; members of Executive Committee for three-year term, Henry W. Koeneke, president, Security Bank, Ponca City, Oklahoma, and E. M. Malone, president, Guardian Trust Company, Houston.

Trust Division—President, Merrel P. Callaway, vice-president, Guaranty

Trust Company of New York; vice-president, Blaine B. Coles, vice-president, First National Bank of Portland, Portland, Oregon; members of Executive Committee, W. J. Kieferdorf, vice-president and senior trust officer, Bank of America National Trust and Savings Association, San Francisco; Richard G. Stockton, vice-president and associate trust officer, Wachovia Bank and Trust Company, Winston-Salem, North Carolina; Louis S. Headley, vice-president, First Trust Company of St. Paul; Alfred Fairbank, vice-president and trust officer, Boatmen's National Bank, St. Louis; and Roland E. Clark, vice-president, National Bank of Commerce, Portland, Maine.

State Secretaries Section—President, David M. Auch, secretary, Ohio Bankers Association; First Vice-President, Theodore P. Cramer, Jr., secretary, Oregon Bankers Association; Second Vice-President, W. Gordon Brown, executive manager, New York State Bankers Association; Board of Control, George A. Starring, South Dakota Bankers Association, George B. Power, Mississippi Bankers Association; also Mr. Auch, Mr. Cramer and Mr. Brown.

CONVENTIONS

State Associations
1936

Apr. 16–20	South Carolina Bankers Association, on shipboard; sailing April 16 from Charleston for 5 days, with one day in Havana
May 4–6	Kansas and Missouri Bankers Associations (joint convention), Kansas City, Missouri
May 7–8	Oklahoma Bankers Association, Mayo Hotel, Tulsa
May 12–13	Mississippi Bankers Association
May 19–21	Texas Bankers Association, Hotel Rice, Houston
May 20–21	South Dakota Bankers Association, Aberdeen
May 25–27	Illinois Bankers Association, St. Louis, Missouri

Other Groups
1935

Dec. 5–6	Association of Life Insurance Presidents, The Waldorf-Astoria, New York, N. Y.
Dec. 9	Industrial Congress, Washington, D. C.

1936

Jan. 27–31	Fourth International Heating and Ventilating Exposition, Chicago, Illinois
Apr. 20–22	Reserve City Bankers, Edgewater Gulf Hotel, Biloxi, Mississippi

$1,000 Plus Interest

IN a discussion of the banker's responsibilities during the depression and the faithfulness with which he has discharged them, R. D. Sneath, president of The Commercial National Bank, Tiffin, Ohio, pointed out that the record of banking institutions has been highly creditable.

Addressing a group meeting at Toledo, Mr. Sneath recalled a statement made less than a year ago by Jesse H. Jones, chairman of the Reconstruction Finance Corporation, to the effect that the banks had made a better record than any comparable group of institutions—the best, indeed, next to Government bonds.

"For example," Mr. Sneath said, "depositors in closed banks—that is, those banks that have actually failed and gone out of business, have received on an average throughout the United States, 75 cents on each dollar of deposits. At the same time, those people who invested their money in what they believed to be good miscellaneous bonds were able to recover only about 50 cents on the dollar. Those who invested in what were believed to be good miscellaneous stocks were able to recover only 25 cents on the dollar.

"In addition, there are, of course, thousands of banks, representing about 80 per cent of the total bank deposits, that have weathered the depression successfully. Assume that an investor placed $1,000 in the savings departments of these banks in 1929. He could draw out today $1,000 plus his interest. What other investment, with the possible exception of United States Government bonds, today pays out 100 cents on the dollar of what was paid in, plus interest? Any banker who has brought his bank through this depression in this manner—and thousands of bankers have—has accomplished the seemingly impossible."

If bankers are to be criticized, Mr. Sneath asserted, "it is because they have stood silent too frequently and have not presented the facts at their disposal, but have allowed the misinformed to spread information that is contrary to the facts and detrimental to all banks and bankers." Many bankers have preferred to attend to their affairs, "knowing the criticism was unjust, and administer their stewardship conscientiously, feeling confident that time would reveal the true facts."

Sixty Billion Dollars

A DETAILED compilation, by states, of the capital, surplus and undivided profits, deposits, loans and discounts, security investments, and total resources of all state banks in the United States, as of June 29, 1935, together with totals of these items for the national banks, was presented to the 34th annual convention of the National Association of Supervisors of State Banks by R. N. Sims, secretary-treasurer of the organization. The convention met in Atlanta early in November.

On the date mentioned the total number of banks was 16,173, of which 10,742 were state and 5,431 national institutions. Their aggregate capital, surplus and undivided profits amounted to $7,440,648,625, or $39,284,224 above the figure for June 30, 1934; deposits totaled $51,438,229,063, an increase of $4,698,401,205 during the year; and total resources came to $60,433,222,450, a gain of $3,910,451,022.

CAPITAL RESOURCES

ON June 29 last, capital, surplus and undivided profits of state banks totaled $4,496,865,625, and of national banks $2,943,783,000, capital resources of the former group being 53 per cent larger than those of the nationally chartered institutions. State bank deposits of $28,919,983,063 compared with $22,518,246,000 for the national banks, a difference of 28 per cent. Total resources of the state banks, at $34,372,157,450, were 32 per cent larger than those of the nationals, the total for which was $26,061,065,000.

"It is significant," Mr. Sims pointed out, "that during the year ending June 29, 1935, there was a total decrease in the loans and discounts in all our banks of $1,130,000,000, and during the same period an increase in the bonds, stocks and securities of $1,753,000,000, being an increase of $415,000,000 in the state banks and $1,338,000,000 in the national banks. The holdings of Government securities by our banks are large."

Total resources of all Federal Reserve member banks on June 29, 1935, the report showed, were $40,772,266,000. The $26,061,065,000 in resources of the national banks, amounting to 64 per cent of the total, averaged $4,800,417 for each of the 5,431 institutions, while the 985 state member banks had aggregate resources of $14,711,201,000, an average of $14,935,229.

"These figures," commented Mr. Sims, "show our banks to be in a strong position, and emphasize the important part which the state banking institutions play in our great Reserve System through their voluntary membership.

"The preponderant volume of state bank resources, as late as June 29, 1935, should warn our national authorities that further banking legislation, pointed in the direction of our state banks, must be cautiously pursued so as to guard against injury to this great element of our financial structure.

"The state banks are closest to the producers of this country. They are now controlled by more safety legislation than ever before in the nation's history, and I believe there should be a halt in further national legislation, that our banks should be permitted to pursue their way without uncertainty, so that we may move more swiftly to complete national recovery."

Increased Earnings through Expense Control

IT has only been a few years since the chief requisite for profitable bank operation was the executive staff's ability to make loans and purchase securities, the liquidation of which would result in a minimum of loss to the bank.

In other words, by keeping the bank's losses within a very conservative figure its success was assured.

A knowledge of credit and security values is still essential in running a bank, but in addition a new type of knowledge is necessary today to prevent the operating figures from showing in red.

This new requirement is the knack of analyzing internal operations so as to provide a base for greater efficiency and intelligent planning.

The return on earning assets has been so drastically reduced that operating costs must be kept at a minimum. The internal routine followed in handling the large number of banking transactions must be carefully examined in order to determine whether more efficient and less costly methods can be evolved which will result in lower expenses. The possibilities in this direction are tremendous, and a man with the ability to contrive and inaugurate more efficient operating methods is worth a great deal to his bank. Large metropolitan institutions have been following this policy of internal analysis for years but the banks outside the large centers have been lax in this respect.

With the increase in business which practically all banks have experienced since the bank holiday many managements find it necessary to increase their staffs. In many instances this rise in operating expense may be delayed by a general survey of operations and the institution of new methods and policies that will create greater efficiency.

"PEAK" PERIODS

DEPARTMENTAL banking has brought with it one unfavorable operating feature—the departmental "peak" period. Larger banks are successfully meeting this problem by analyzing very closely the trend of work in the different departments. They are shifting employees from departments where the work is light at different times of the day to others where the work is heavy during those same periods.

For example, in the commercial tellers' division in the average medium-sized bank approximately one-fourth of the number of tellers necessary to meet the "peak" periods is sufficient during the hours when business at the windows is quiet. One of these dull periods is early in the morning; yet this time is one of the peak periods in the department handling the items received by mail. A shifting of a few of the most recently promoted tellers from the commercial tellers' division to the transit department will help solve this peak in that department.

This is a practical illustration of how the shifting of employees may be planned and the final aggregate result is a smaller working force handling a greater amount of work. The effect of this policy on the morale of the personnel is good. From the customer's viewpoint the sight of a busy staff creates a favorable impression. The plan

By J. W. MILLER

also makes for a reduction in the number of clerical errors. Analyses have repeatedly shown that when employees who handle routine transactions are kept sufficiently busy, their minds will not wander and the highest degree of accuracy is attained.

Another possible channel for expense reduction in the medium-sized institutions is in the intelligent purchasing of supplies. A careful control over the many printed forms ordered will result in savings. Many forms can often be eliminated either through discontinuance or consolidation with others. Proof that the careless purchasing of printed forms is costly is exemplified in their periodical destruction in large quantities by many banks. To a certain extent this practice can be considered charged to the cost of progress, but the proportion would in most cases be a small percentage of the value of what has been destroyed.

Undoubtedly, one thing responsible for this waste is the unintelligent purchasing of supplies in large quantities in order to get a better price. There is a limit to the volume of supplies which can be economically purchased regardless of the price. There is no standard answer to the question regarding the quantity of the different items which should be ordered at one time. Each purchaser will have to answer that for himself, but he should not attempt to arrive at a decision without a careful analysis to determine the number of pieces used periodically and the possibility of changes which would cause them to become obsolete.

The proper internal cost and analysis set-up will provide the officials in charge with a knowledge of the margin of profit gained in the different types of banking service. Such information should serve as a guide in determining what customers the bank should seek to interest in its advertising and other methods of contact.

This intelligent approach to the problem is so different from the methods used in the past. The prevailing policy in most institutions was to secure volume, hoping that their net profits would eventually reflect a proportionate increase. The facts are that most of the business gathered without giving the profit angle any serious consideration caused a reduction, rather than an increase, in net earnings. It is only good business to push those lines of service in which the margin of profit is the largest.

NEBRASKA BANKERS

J. M. Sorenson, vice-president of the Stephens National Bank of Fremont, is the new president of the Nebraska Bankers Association

Survey of Service Charges

RAPID spread of the service charge idea in the last two years is revealed by a survey on this subject recently completed by the Bank Management Commission of the American Bankers Association. The survey was made by means of questionnaires sent to the 587 clearinghouse associations in the United States. Replies were received from 457, having a total membership of 3,842 banks, or about one-fourth of all the banks in the United States. In no previous survey of this type were even half as many responses received.

Of the clearinghouses replying, more than 95 per cent indicated that they have some type of service charge in use. About two-thirds of them use the measured service charge. A survey made two years ago indicated that two-thirds were then using the flat service charge. The shift from flat to measured charges is attributed by the Commission to a growing realization on the part of banks that flat charges leave out of consideration a vital element in the cost of administering an account—activity.

The survey shows that the most frequently used flat charge at present is 50 cents per month for accounts which do not maintain an average balance of $50 or more during the month.

The most common measured service charge plan also provides for a base charge of 50 cents per month for accounts with average balances of less than $50. To depositors who maintain the required balance five checks per month are allowed without charge. Additional checks are charged for at 3 cents each. Many banks permit the depositor to draw one additional check without charge for each $10 of average balance in excess of the required $50.

The survey points out, however, that the most frequently used service charge plans are not necessarily the soundest. Expert opinion is that a $50 balance is not adequate to cover the costs of handling an account which draws even a few checks per month. Moreover, says the report, the variation in costs from section to section makes it unwise for any bank to adopt a schedule of service charges simply because that schedule is used by a number of other banks.

SECURITY

Frank Bane, executive director of the Social Security Board, which is in process of organization pending Congressional action on its appropriation

HARRIS & EWING

Large Savings Banks

A COMPILATION of the 50 largest banks in the world, made at the instance of Lewis Gawtry, president of The Bank for Savings, New York, places in this list seven American mutual savings banks, six of which are in New York City.

The showing of the mutuals is particularly striking in that at least half of the 50 institutions named have a substantial number of branches, many of them covering entire countries, while no savings bank mentioned has more than two branches, which in each case are within the limits of the same city.

THE LIST

THE first mutual is the Bowery Savings Bank, New York, ranking 21st on the list, with deposits of $503,000,000 on July 1 last. Emigrant Industrial Savings Bank, New York, with $415,000,000 in deposits on October 1, 1935, ranks 26th. The other listed mutuals are: Philadelphia Savings Fund Society, Philadelphia, in 34th position with a deposit total of $319,000,000 on June 30 last; Williamsburgh Savings Bank, Brooklyn, in 43rd position on October 1 with $227,000,000 in deposits; Bank for Savings, New York, ranking 46th with an October 1 deposit total of $203,000,000; Central Savings Bank, New York, No. 49, with $189,000,000 on June 30; and the Dry Dock Savings Bank, New York, No. 50, with $186,000,000 on the same date.

It was found impossible to obtain all the figures for the 50 banks throughout the world as of the same date, but the totals are within a close enough range to be comparable. London's three great institutions, Midland Bank, Ltd., Barclays Bank, Ltd., and Lloyds Bank, Ltd., continue to hold the first three places on the list. The Chase National Bank of New York is fourth.

Deposit totals for a number of the foreign banks were obtained from the January 1935 issue of the booklet, "The Deposit Liabilities of One Hundred and Fifty of the Largest American, British, Colonial and Dominion Banks," compiled by the California Bank, Los Angeles.

I. B. A.

Orrin G. Wood of Estabrook & Co., Boston, is the new president of the Investment Bankers Association of America

WIDE WORLD

Informative Advertising

"TO the average man, banking and all things related to it are matters of deep mystery." This is the recent statement of a well known business man, the vice-president of a large corporation. Is it a true statement? I believe that practically every banker's experience and observation will lead him to answer "Yes."

However, no banker needs to depend entirely upon what he himself sees and hears to convince him of the great popular ignorance and misunderstanding of banking, and of the present need of informative advertising to correct that condition. Recently a number of questionnaires on this subject have been sent out in various parts of the country. The answers to them are significant.

One of these questionnaires was sent out from San Antonio, Texas, to about 1,000 bank depositors in different parts of the United States. These depositors were sufficiently large and important to use checks with their names imprinted. About 400 replies were received. Of these, 32 per cent were very critical; 60 per cent indicated that they had not been adequately informed as to the reason for bank service charges, nor convinced of the value of the services for which the charges were made; and 83 per cent did not feel that the public understands bank loan policies, or why banks cannot make certain kinds of loans.

Another questionnaire sent to householders and storekeepers in the suburbs of a large city brought out the fact that 90 per cent of those asked believed that banks speculate with depositors' money and make at least 10 per cent annually on their investments.

WHAT IS DISCOVERED

THE results of such questionnaires seem to prove that one of the greatest responsibilities of the American banker today is to educate the public as to the all-important place that banking occupies in community life and just what its functions and services are. It proves also that upon the banks themselves falls the duty of restoring the shaken public confidence in banks.

People must know the banks before they can have confidence in them. For the work of interpreting the new banking situation, creating an informed public opinion about it and rebuilding impaired banking prestige, experts agree that good advertising, through all accepted media, is essential. The changed conditions in American banking, the new system of credit control set up by the revised banking law just enacted, and Federal deposit insurance have created a new situation in bank advertising. There has been a shifting of emphasis. With a practically uniform banking code and permanent deposit insurance giving positive assurance of protection to the great mass of bank depositors, very little needs to be said about safety. Depositors, hereafter, should be able to take safety for granted.

Many bankers, and especially bank advertising men and women, are fully cognizant of these new conditions and are taking steps to revamp their advertising ideas, campaigns and copy accordingly. The main purpose of the recent annual convention of the Financial Advertisers Association was to make an intensive study of the problem of how best to bring about a better understanding of banks and their service by bank

By T. D. MACGREGOR

The author is a member of the advertising firm of MacGregor & Woodrow

depositors and the public at large. I. I. Sperling, retiring president of the association, said:

"The narrow viewpoint of merely writing competitive advertising has grown into the broader perspective of a comprehensive goodwill-building job: first, in selling American banking; and, second, in furthering the individual bank's own interests and profits. It is an honest attempt to educate and inform. Mutual understanding is the essence of a bank's relationship with the public and its customers. The job of promoting it is never-ending, to be carried on year in and year out."

Both Charles R. Gay, president of the New York Stock Exchange, and J. F. T. O'Connor, Comptroller of the Currency, emphasized that the new trend to intensive public relations work is more vitally needed than ever before if the confidence of the public in the banking system is to be regained.

Edward L. Bernays said: "Leaders will have to make new pictures of themselves, their activities and functions if they are to regain the faith of the public." A. R. Gruenwald, advertising manager of the Marshall & Illsley Bank of Milwaukee and chairman of the general research committee, reported that: "This year's association survey showed that more thought is being devoted to building a specific personality for individual institutions and more attention is being given to advertising and selling loans." Robert W. Sparks, vice-president of the Bowery Savings Bank, New York, the new president of the association, said: "The public and the investor need financial education as never before." Frank F. Brooks, president of the Pennsylvania Bankers Association, proposed a great national advertising campaign to sell banks and their service to the American public.

Among the things to be stressed now in a bank's advertising and public relations are: banking functions, loans, the checking privilege, business and financial counsel, real thrift, fiduciary services, safe deposit, foreign exchange, the reasonableness of the service charge, courteous service of personnel, and the special claims of the institution. From now on, the personality, the individuality and the distinctive qualifications of banking institutions must be capitalized in their advertising and publicity to create and maintain good will and public confidence, and to increase business and profits.

H. O. L. C.

Charles A. Jones, new general manager of the H. O. L. C., was formerly in the real estate business in Washington

HARRIS & EWING

Aids for Mortgage Lenders

TWO agencies now functioning in New York City are demonstrating the value of cooperative effort among mortgage lenders. One of these is known as the Group V Mortgage Information Bureau; the other is the Mortgage Conference. The activities and services of both were described to the Savings Division, American Bankers Association, at the New Orleans Convention, by Philip A. Benson, president of the Dime Savings Bank of Brooklyn.

The Information Bureau, organized in April 1934 by a group of Brooklyn savings banks, helps its members in many practical ways, making the experience and knowledge gained in one bank available to all. It concentrates as closely as possible on the problems of banks owning real estate in the New York boroughs of Brooklyn and Queens.

The Bureau has been able to provide its member banks with information on practices, collections, sales, loans and foreclosures, so that each institution can compare its own record with that of the others and with the average. Reports are prepared on interest collection and vacancies in rentable property. Statistics covering the former item, sent to each bank monthly, show the amount of interest due the first of the month and the amount collected during various intervals. Total figures indicate whether collections are improving.

Vacancy surveys are made by locations and types of property. Tenantless buildings represent loss of income, and property owners must constantly endeavor to keep the number at a minimum. The Bureau's studies enable a bank officer to know whether his bank has a larger proportion of vacancies in a given neighborhood than other institutions, and he can take steps to remedy an unfavorable situation.

The Bureau provides for an exchange of information concerning undesirable tenants; in some cases, houses have been emptied, for the general good of the district, preliminary to improving a property for the occupancy of better tenants.

PICTURES AND PLANS

ANOTHER interesting service of the Bureau is its exhibit of modernization plans of members and non-members. Pictures of properties are taken before and after renovation, and information as to costs and plans is made available, together with data on gross and net income prior to and following modernization. One important step taken by the Bureau was the publication of minimum requirements for new construction, based on standard specifications prepared by a competent committee. Members have agreed not to make loans on new structures unless the builders agree to meet these requirements as a minimum, and thus the interests of sounder construction, and therefore greater security for loans, are being advanced.

The Bureau's semi-annual vacancy survey indicates the relative rentability of different types of buildings. Other studies include an analysis of new apartment house construction and its effect on owned and mortgaged properties; maps showing shifts of population; the location of areas in which foreclosures are substantial; and all real estate sales covering a period of several years.

The Bureau has a record of about 100,000 mortgages held by its banks in Brooklyn and Queens. It has compiled

information on some 6,000 parcels of real estate, and it receives from each member a monthly report on foreclosures, new loans, sales, interest collections and tax arrears.

NEIGHBORHOOD TRENDS

MEMBER banks inform the Bureau of the location of properties which they plan to inspect to connection with loan applications, and when a member's committee goes to look at the parcel it is provided with a report from the central organization detailing the number and amounts of mortgages on the block, the situation with respect to arrears, the foreclosed properties in the neighborhood, new construction and sales, and sometimes rentals. Reference is frequently made in these reports to neighborhood trends. There is also a statement as to whether the property has been previously inspected by a member.

Discussing the services of the Bureau in connection with assessed valuations, Mr. Benson explained that property in New York is supposed to be assessed for its full market value, although "much of it, as a matter of fact, is over-assessed."

"This is particularly true," he said, "of real estate acquired through foreclosure, and it is often necessary for us to file a protest in order to secure a reduction in assessed valuation. This work is being coordinated by the Bureau for all of the member banks. Conferences have been held with the tax authorities whereby hearings in connection with all protests made by savings banks are grouped.

"Once a month the Bureau brings together the real estate men and some of the officers of the member banks for a general discussion. Speakers of note are invited to address these meetings and real estate and mortgage problems are freely discussed."

THE MORTGAGE CONFERENCE

MEMBERS of the second cooperative agency, the Mortgage Conference, include life insurance and trust companies, as well as savings banks. The objects of this organization are to promote the stabilization of real estate values, obtain the cooperation of institutional owners for a reduction of vacancies, maintain rental schedules, eliminate undesirable tenants, promote sound principles of mortgage lending, and eliminate competition for loans.

The Conference has compiled information on the volume of new construction in the city, so that institutional lenders have been able to direct the financing of new buildings to areas which could absorb them. Records are maintained on alterations, sales and new mortgages. Numerous important studies of various matters related to real estate have already been completed.

"My conclusion of all these efforts," Mr. Benson said, "is that we have come to a realization that we must be informed as to the results of our past mortgage lending practices; that we must cooperate in order to avoid the continuation of bad practices; that we must be informed as to what each one is doing; and that we must unite in order to reduce as far as possible the dangers inherent in taking real estate mortgages as security in lending our funds. In the past I think we have been over-optimistic in making our appraisals. I do not think we were as fully informed as we might have been of the facts affecting land values. I am quite sure we failed to see the importance of the extinguishment of debt.

"The business of mortgage lending is essential to the growth and development of all of our American cities. This business must remain in private hands. It is not a function of the Government. Proper methods can but lead to better buildings, sounder growth and development, and a greater degree of true prosperity for all our people."

The Trend of Trust Investments

THE trust departments of national banks on last June 30 held bonds of all kinds in their assets to a total of $4,509,079,695. In the course of the 12 months ending on that date the trust funds of these banks absorbed $497,-783,823 of such bonds — partly by an increase in their total trust assets and partly by an increase in the proportion of bonds to all other trust assets. All this is by way of saying that the trust activities of the national banks of the country have not only assumed tremendous volume but also that this volume is an increasingly important factor in the country's securities markets. Since June 30, 1932, the trust departments of the national banks alone have absorbed stocks and bonds to the amount of $3,809,581,221 in addition to what they then owned.

Growth, of course, accounts for most of this increase, but changing investments also play their part. According to statistics released by the Comptroller's office, there were 1,578 national banks actively engaged in trust department operation on June 30, as compared with 1,560 banks a year earlier, an increase of only 18, the restricted expansion being due to the number of mergers and other changes going on in the national bank world, which as far back as 1929 had 1,734 banks with active trust departments. But the number of individual living and court trusts increased between June 1934 and June 1935 from 122,022 to 129,711, or by 6.2 per cent, while the total individual trust assets increased from $8,516,551,744 to $9,251,291,947, or by 8.6 per cent.

In the same 12-month period the number of corporate trusts increased from 15,903 to 16,801, and assets against corporate note and bond issues increased from $11,484,461,737 to $11,-605,145,026, or by 1.05 per cent. It may be noted that in 1926 individual court and living trusts had total assets of only $922,328,677, while corporate trusts had assets of $2,463,553,316. Since 1926 individual trust assets have increased almost exactly ten-fold and corporate trusts more than four-fold.

In 1929 there were 75,988 individual trusts with assets of $4,237,648,663. This year's record is better by about two and a quarter times. In 1929, when corporate bond issues were high, corporate trusts in national banks amounted to only $7,370,154,456. This depression year's record shows a gain of about half. In the nine years ending last June the assets in individual trusts administered by the national banks increased by $8,328,963,270.

The course of these investments in the depression years is significant, inasmuch as it reflects experienced investment opinion under very trying and dangerous conditions. Since 1932 the office of the Comptroller of the Currency has tabulated investments of the assets of the trust departments of the national banks in major classes. The percentage proportion of trust assets invested in these several classes from 1932 to the past fiscal year appears in the following table:

	1932	1933
Bonds	37.56	43.17
Stocks	30.88	33.15
Real estate mortgages	16.14	12.16
Real estate	....	....
Miscellaneous	15.42	11.52
	100.00	100.00

"The course of these investments in the depression years is significant, inasmuch as it reflects experienced investment opinion under trying and dangerous conditions . . ."

	1934	1935
Bonds	47.10	48.74
Stocks	31.66	29.28
Real estate mortgages	9.61	7.96
Real estate	6.95	7.16
Miscellaneous	4.68	6.86
	100.00	100.00

Before 1934, holdings of real estate were included in the miscellaneous class. The increased holdings of real estate in the past year to some extent reflect mortgage foreclosures, as is the case with similar increases in most banking departments. The holdings of stocks, all things considered, seem remarkably steady under the conditions which have obtained during the depression, but since stocks in trust funds may generally be counted as of the strictly gilt edge class this perhaps is not surprising. The trend from real estate mortgages to bonds is in keeping with investment policies of the great insurance companies and other large investors during the period. Practically all of the increase in trust department assets of the national banks since 1932 has gone into bonds of some sort. Presumably a considerable amount of these bonds is in longer term Government obligations. Recent refunding of the Fourth Liberties is known to have caused considerable house cleaning in the trust departments of the banks.

BONDS

PREFERENCE for bonds in trust investments is explained to some extent by the fact that in some states court trusts require investments in assets approved for savings bank purposes or with other similar restrictions. However, the proportion of individual trusts held under court or similar jurisdiction amounts to only about 20 per cent of the whole on an average, and that proportion has been decreasing—from 23.8 per cent in 1930, for example, to 19.5 per cent in 1934. On an average about 80 per cent of trust assets in the banks are subject to bank judgment and bank responsibility.

There is no reason why they should not take a wide range, and at times in the past the proportion of stocks held in trust portfolios was such as would have been considered exceedingly dangerous in these later days of disillusion. Last year's development has been due for the most part to the general trend of investments. Information received by supervisory authorities indicates that in recent months many trust departments are again turning to real estate mortgages, especially upon city property brought within the scope of the insured mortgage system.

LIVING TRUST INCREASE

THE fact that, although court trusts have increased in number more rapidly than living trusts, there has been a greater proportional increase in the assets of the latter indicates a trend of vast importance to the banks. It is evident that more and larger living trusts are going into bank hands and it is the common experience of many banks that this is due in large measure to the increasing difficulty small investors experience in finding safe and satisfactory investments and to an increasing disposition on the part of such investors to entrust their savings to trust department experts.

George E. Anderson

It Might Have Been Prevented

"SMITH speaking, Mr. Jones," said the voice on the cashier's telephone. "That matter can be arranged now."

"Thanks," said Jones, and hung up. Then he spoke to his assistant: "All right, Fred. It's ready."

Fred, joined by one of the clerks, quietly left the bank.

The message the telephone had actually conveyed was this: "Post office calling. We have the $50,000 currency shipment from the Federal Reserve bank to meet the Gadget Manufacturing Company's payroll. Please send for it."

The bank had been using this neat stratagem for some time. Whenever it received cash by mail a postal employee would serve notice of the arrival by means of a code phone call, and Fred and the clerk would walk to the post office, four blocks away, get the package, and hurry back through the crowded streets. The system was simple, unostentatious, inexpensive—no guns, no uniformed guards, no fuss—just a couple of men with a plain parcel.

Fred and his companion signed for the money and walked down the post office steps. As they reached the sidewalk four men hemmed them in, jammed sub-machine guns against their ribs, snatched the bundle, walked swiftly to an automobile parked at the curb, and escaped in the traffic. It was all over in a few seconds.

The bandits, of course, were thoroughly familiar with the bank's system. They knew the incidence of the factory pay day, the practice of having two employees call for the money, the time they called, and their identity. They had observed the various details for several weeks, learning that the routine was always the same. They had left nothing to chance, except their ability to make a getaway.

The indemnity company, investigating the circumstances of the holdup, found that an armored car service was available in the city, although the bank, presumably for reasons of economy, had not used it.

"But even so," observed an official of the company, "the bank could have

NEW HIGH

The Civil Service Commission reported that September's total of Federal employees reached a peace-time peak, with payrolls of executive branch agencies at $116,094,004 for the month. Below, Harry B. Mitchell, Commission president

ACME

moved the cash in a private automobile. Doubtless it felt secure in its assumption that two civilians carrying a package would hardly be taken for bearers of treasure; but it would have been much safer to have used a car. Also, the bank could have varied the time for calling for the shipments and need not have sent the same men on each occasion. The Federal Reserve bank might have been asked to split the currency into two or more bundles.

"In this case an armed guard probably would have been useless. The trouble was that the bank had placed too much faith in casual methods."

It Might Have Been Worse

IN a large number of bank holdups and robberies the point is not so much that the crime might have been prevented as that it might have been worse.

"Bank Bandits Miss Million", proclaims the newspaper headline, and the reader hastens to learn why they were so careless. A more pertinent question, of course, would be whether it was necessary for the bank to keep that million where it could be stolen.

To recall an instance in point:

A savings bank in a small town had provided itself with better than average protective equipment and felt reasonably secure against surprise and loss.

Business was proceeding leisurely one hot Summer afternoon when three men entered the building. Ignoring the sole customer — an elderly gentleman — they vaulted the burglar-proof glass partition separating the row of cages from the lobby, fired a revolver shot into the ceiling, and demanded the cash. The employees, pardonably frightened by the Wild West tactics of their visitors, promptly and tremblingly gave them access to several thousand dollars in currency. The trio departed in an automobile.

Fortunately, the holdup men, in their haste, overlooked more than a million dollars in negotiable bonds which, lying near the currency, might have been theirs for the taking.

The bank, it happened, did not carry sufficient insurance to cover the loss of the stolen money. But this case offers another lesson, one closely related to the problem of loss prevention. The bank's judgment in keeping on its premises, without benefit of time lock protection, so substantial a fortune, was open to criticism, to say the least. It might, as many banks do, have made a practice of keeping its bonds in the custody of the nearest Federal Reserve bank or its big city correspondent.

Judge Elwood Hamilton of the Louisville Federal district court held the Guffey Coal Control Act constitutional

WIDE WORLD

A Decade of Progress

THE past decade has witnessed a remarkable growth in the mechanization of bank operations.

Up to 10 years ago the usual office equipment of a banking institution comprised the typewriter, the adding machine, and the simplest of bookkeeping machines. One of the most important qualifications of the bank employee was his ability to write a good hand, and many of the items which are now printed or typewritten forms were being put through with pen and ink entries, as a glance at the 1925 files will show. Bankers, it seems have been more hesitant than many other business men in adopting mechanical equipment.

In the tellers' department, for instance, there was then a good deal of hand work which has lately been supplanted by machine operations. The pressure of business in those days was not as great as during a more recent period, and the variety of transactions was much less extensive. Rack and sorting operations were laboriously performed by hand, whereas today a single machine in one operation sorts the checks into bank blocks, lists each check simultaneously on the bank's listing and on the department run-up, and handles both volume and amounts. An additional feature is the proof furnished for the department sheets.

Bookkeeping equipment was first installed a score of years ago, but many institutions are still laboring with obsolete machines that waste more per year than the cost of complete modernization of the entire department. When we realize that the first substantial installation of bookkeeping machinery in banks is fairly recent, we are astonished at the progress of this mechanical equipment. It was once common practice to have an operator run ledger sheets and another post the items to the statements. Today with the improvements in paper, machines and carbons, this is now performed in one operation. Pencil notations were formerly made for uncollected items, holds against the accounts and other information; now the machines present a detailed account analysis, a detailed statement, and service charge information, in addition to showing float, uncollected items, all in a single operation.

Banking symbols, number of check, date and amount are quickly and simply written on the face of each check issued, with duplicate records on a check register card and sheet eliminating the many operations of dating, writing in details and punching the checks for protection. The time saved in writing details on cashier's checks, dividend payments, or department checks is to the operating advantage of every bank.

Foreign exchange activities and the fluctuations of currencies account for the presence of calculators, yet most banks still use the hand-operated machine which was introduced in 1920. Some have electrified their models. These improvements were proven satisfactory by the manufacturing business and the accounting professions years before; here again the lag has been greater on the part of bankers.

Trusts 10 years ago were considered as only for the very wealthy. Today they have been placed at the disposal of the salaried and professional man, the person with a limited income. When

this extension of service was first contemplated, the equipment necessary for taking care of it was mostly hand operated, all the posting being made in looseleaf ledgers or on cards. Today the various trust records are machine-posted in one operation.

Many bank forms show little change, but others bear no resemblance to their ancestors. New demands from customers necessitated new forms. The floatation of foreign securities, domestic purchasing and selling of stocks and bonds, started all sorts of systems of cards, files, reports and statistical records. Vault and audit controls had to be established for safety in such departments as trust, loan, foreign and bond. Hand-written records for these operations did not permit the making of many carbon copies. Today the volume of work put through in one day with the 7 or 8 copies required is all done by machines. This has caused changes in many forms. The printing of all except the details of the transactions, the reduction in the size of forms (in 1925 the size most favored was 17 x 8½ inches) and the efficiency of operations, have added to permanency and clarity.

For new types of loans, such as inventory advances, chattel loans, loans on accounts receivable, special forms are required. Years ago the banker did not attempt these operations; today competition forces him into seeking other channels of revenue. Banks have also entered field warehousing.

Again reverting to the past, we find even our larger banks using Boston ledgers or wasteful looseleaf systems installed years ago and never modernized. Passbooks were in common vogue and depositors were accustomed to having these balanced; the system of mailing monthly statements, which started in the larger banks, did not meet public approval for some time. Customers had to be educated to the practice of reconciling their check books with the printed statements submitted by the bank. Banks then used pen-posted looseleaf ledger sheets and men were the bookkeepers. Today the bookkeeping staff is composed largely or entirely of women, and machines quickly turn out the work which formerly consumed so much time.

Although bankers generally have lagged in the installation of modern mechanical aids, they may find the present an opportune time to look into their organizations and uproot methods which are causing inefficiency and loss of time.

HENRY F. KOLLER

RESPECT

Speaking of the efforts in Germany in preventing soil erosion, C. H. Brand, secretary of the National Fertilizer Association, urged that Americans have "this same reverent respect for that resource upon which practically all life depends"

WIDE WORLD

Cotton

UNLESS cotton exports from the United States recover, the nation is likely to face a continued adjustment and limitation program and have the added problem of finding employment for nearly 2,000,000 people engaged in producing and handling that staple, says a review of the cotton situation appearing in the *Bulletin* of the Agricultural Commission of the American Bankers Association.

After discussing the steps taken by the Government to stimulate cotton prices and improve the purchasing power of the cotton regions, the review expresses doubt as to the direction in which present trends are leading. "The cotton production control program and Government loan policies," it says, "have at least temporarily brought increased income to the cotton farmer. On the other hand, the marked reduction in cotton exports, and the increased interest in foreign acreage and production the past year, appear to many as warning signals."

Those favoring continued control, it says, feel that continued, unrestricted production at losing prices will result in permanent poverty for the cotton producers and general bankruptcy for the cotton regions.

Those favoring no control believe that "economic progress must come through effective distribution of a greatly enlarged productive output, and the benefit of increased efficiency, both human and technological, must be passed along the line to the entire people in lower prices."

The review also finds a considerable group favoring some sort of compromise under which the present system of Government control will be considered temporary and gradually abolished.

Pointing out that in the past 50 years American exports of cotton have represented an income of more than 23 billion dollars, "enough to build and equip every mile of railroad in the United States," the review suggests that the problem should be attacked with efforts on the part of the cotton industry, through improved methods and greater economies, to stimulate a return of large scale American shipments abroad.

OPTIMISTIC VIEW

THE National Resources Board is cited as authority for the statement that "it appears improbable that foreign production will be standard enough to reduce seriously our export possibilities, unless the price of American cotton is so high that foreign growers can sell at a price which makes cotton raising more profitable than other farm products."

"Many of our overseas customers," the survey continues, "are reported as favoring American cotton because of its even running quality, including strength, flexibility of fiber and good spinning value. They are willing to pay some, but not too high a premium."

The review, however, points out that while the world supply of raw cotton is large, foreign production is increasing, and consumption of the foreign-grown staple seems to be keeping up with production. It further says that "when America's share of world production is large (over 50 per cent) the American crop dominates the price movement. If the rest of the world should produce over 50 per cent, fear is expressed that America may lose the price leadership, and may experience a low yield and a comparatively low price at the same time. Whether this threat to America's cotton supremacy is temporary or likely to be permanent, is of vital concern to American producers and handlers."

Safe Keeping Insurance

ALL banks must have adequate insurance protection covering cash in the vault, negotiable securities owned by the bank or held as collateral to loans, and also ample coverage on all other stocks, bonds and securities left with the bank for safe keeping. A bank's safe keeping and collateral are carefully checked by bank examiners and clear records must be maintained on all securities sold or withdrawn by customers. Such a record requires the purchase of supplies which, when added to the cost of burglary insurance, makes this service expensive to banks.

PREMIUMS

WHILE a bank must bear the expense of insuring securities it owns, customers should pay the premium on collateral and safe keeping insurance. Some clearinghouse associations have provided for the cost of safe keeping insurance in their service charge schedules, but the cost of collateral insurance is often overlooked by bankers.

When we take into consideration that a blanket bond covers such securities as money orders, bonds, debentures, script, warrants, checks, coupons, drafts, bills of exchange, acceptances, promissory notes, certificates of deposit, certificates of stock, warehouse receipts, bills of lading and all other instruments of negotiable character, we can readily see why this form of protection is expensive. It is necessary for bankers to make a periodic check on the value of all stocks and securities in order to determine whether the amount of insurance is sufficient to cover the cash in the vault plus the total amount of securities owned or held in safe keeping for customers.

CASE IN POINT

FOR example, let us take the case of a small institution that is carrying a $25,000 blanket bond at a premium cost of $715 annually. The cashier had determined that the insurance coverage was sufficient but not excessive, due to an unusually large amount of cash held during the busy season. A customer deposited in safe keeping negotiable bonds amounting to $5,000. Immediately the bank had to purchase an additional burglary policy of $5,000 at a cost of $41.31. As bankers know, a blanket bond covers loss through any dishonest act of employees of a bank, or robbery, burglary or theft while such property is within the offices of the insured or any recognized place of safe deposit in the United States.

In the case used above the bank could have shipped the excess securities to a correspondent in amounts less than $25,000 and received insurance protection at no additional cost.

In the Fall of the year, when cash is large, we have used the Federal Reserve Bank as a depository for securities we did not wish to hold in our vaults and also as a means of saving in insurance.

It appears that customers should at least be charged with the cost of insuring safe keeping and also the cost of supplies needed to maintain records.

GEORGE R. SMITH
Cashier
The Commercial National Bank
Demopolis, Alabama

New Books

WORLD MARKETING. By Virgil D. Collins. Lippincott, 1935. 327 pages. $2.50.

This "complete guide to world market merchandising and selling of the New Era" is presented with a two-fold purpose. The first is to "awaken American enterprise to the urgent and immediate necessity for adequate development of the opportunity that the multi-billion dollar world market affords for increased sales and profits." Its second aim is to "lead the manufacturing or mercantile enterprise, be it large or small, in a clear, concise manner through the successive requisites which will insure an increasingly profitable business and permanency in the embracement of world markets under the new and complex conditions which have arisen out of the world depression."

The book is designed as a popular, practical treatise on a subject of great importance to American enterprise. Mr. Collins presents, among other material, a panorama of the world market; sources of foreign market information; a calculation of world market sales expectancy; merchandising and sales principles and practices; channels of distribution; advertising; prices; world marketing problems; and the technique of exporting.

ENCYCLOPEDIA OF BANKING AND FINANCE. Edited by Glenn G. Munn. Bankers Publishing Company. 784 pages. $6.50.

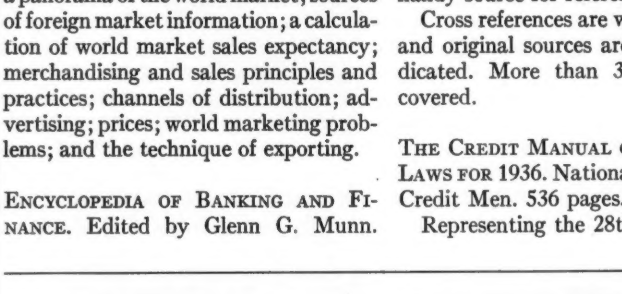
This is Volume I of the fourth edition of the encyclopedia. The work, which has heretofore been presented in one book, is now being printed in two volumes. The first contains permanent subjects, and the second, which will be ready later this Winter, will embrace items of less stable character. The two volumes are intended to complement each other.

Mr. Munn's innovation is worth while. An encyclopedic dictionary of banking and related topics is clearly a large assignment. The ramifications of the profession are many and are constantly in process of transformation. The segregation in a separate volume of legislative texts, tables and other miscellaneous information from the pure vocabulary is indicative of a thoughtful treatment of the whole work and should go far in making this edition a very handy source for reference material.

Cross references are widely employed and original sources are frequently indicated. More than 3,500 items are covered.

THE CREDIT MANUAL OF COMMERCIAL LAWS FOR 1936. National Association of Credit Men. 536 pages. $5.00.

Representing the 28th annual of the



At the Economic Movies

CARGILL IN THE CHATTANOOGA TIMES

Association of Credit Men, this year's publication is entitled to particular attention.

Perhaps at no other time have so many state law revisions in the credit field taken place as in the period covered by the present manual. Recognizing the need for a complete legal summation the editors have set aside a whole section on laws, arranged by states.

The manual is comprehensive in its contents. The chapters on social security legislation and basic methods in foreign trade represent two new features covered this year.

This volume will find frequent use on the desk of many a banker and credit man.

HANDBOOK OF WILL AND TRUST FORMS. Compiled and edited by R. P. Abbey. The Fomo Publishing Company. 188 pages. $3.50.

Here is a definitely convenient compilation of will and trust forms. Alphabetically indexed and prefaced with some practical suggestions for drawing up trust contracts, these sample clauses should prove time savers for every trust man.

FROM FARM BOY TO FINANCIER. By Frank A. Vanderlip and Boyden Sparkes. D. Appleton-Century Company. 312 pages. $3.50.

Mr. Vanderlip tells the story of his colorful rise from the farm and gives an interesting account of his versatile career as a banker. The volume is profusely illustrated.

JAPAN'S POLICIES AND PURPOSES. By Hirosi Saito. Marshall Jones Company. 231 pages. $2.50.

Mr. Saito's contribution to Japanese-American understanding represents selections from recent addresses and writings. The book is especially important by virtue of the post which the author holds in Washington.

WORLD ECONOMIC SURVEY, 1934–35. By J. B. Condliffe. Economic Intelligence Service, League of Nations, 1935. 300 pages, $2.00.

The present volume, obtainable through the World Peace Foundation, New York, is the fourth of a series of annual surveys brought out as a result of resolutions adopted by the League of Nations Assembly in 1930 and 1931. Its statistical contents are mainly drawn from information compiled in the other and more specialized publications of the League. It is an intelligible account and summary digest of world economic trends.

Restless Bank Advertising

(CONTINUED FROM PAGE 24)

understanding of the methods by which advertising should be applied and merchandised so as to express the personality, individuality and policies of a bank. . . . Most bankers look upon advertising as a necessary evil to the business of banking. They are forced to advertise because their competitors do. Ask them and they will say they are receiving no direct returns from the advertising, and have no means of measuring the effectiveness or desirability of such expenditures."

In most cases, however, a definite object will vary according to the peculiar position of the bank, its history, its relation to the community, the business activities of the community, opportunities for new or enlarged business, and every other phase of banking. "Possibly the man who services accounts by formulae", says one commentator, "may find bank advertising complicated, but the advertising man who studies each separate account as an individual problem should find nothing incomprehensible or static about bank advertising. Nor does bank advertising, on the whole, reflect any more stupidity today than do commercial accounts."

TARGETS

WHILE every one seems to agree that to be successful bank advertising must aim at a definite target, the ideas of what the target should be vary almost with the number of commentators. Mr. Kennedy's weighted list of objectives included 25 per cent of effort directed toward prospective customers; 25 per cent toward present customers; 20 per cent toward employees; 20 per cent toward competitors; and 10 per cent toward stockholders. Similar weighted lists suggested by critics ranged from 75 per cent for prospective customers, 20 per cent for present customers and 5 per cent for employees to an almost complete reversal as between the proportions for old and new customers and a similar reversal as between employees and stockholders, allowing 50 per cent of the entire advertising pull to be directed to this phase of a bank's own machinery.

Arguments in favor of greater attention to new customers, as such, are based largely upon the premise that, while under normal conditions a bank would do best by satisfying its present customers as a means of securing new ones, the present banking situation is not normal. As one commentator puts it: "Banks are living on sufferance and enjoy excess deposits at present because of faith in governmental insurance rather than renewed allegiance to bankers. . . . This table (of objective percentages) strikes me as being a theoretical fine comb in the present picture when what is needed is a horse rake to swing the negation of mass emotion from the minus to the plus column. Business men, stockholders, employees and other intelligentsia dealing with banks need no instruction in the fact that mass ignorance, enforcing uneconomic legislation, is the dagger at the hearts not only of their own safety but at the very safety of America and all that it stands for."

THE BIGGEST JOB

AGAINST such contentions it is argued that "the education of the present customers of a bank is the biggest job the bank has. If they understand the reasons back of bank regulations, if bank rules and laws are explained to them in such a way that they naturally come to feel that the bank wants them to become intelligent customers of the bank, they will unconsciously do more business with that bank. They will unconsciously influence their friends toward their bank.

"Again: Our motto is 'Advertise to keep old customers.' This gets the new ones as a by-product."

It is difficult to crystalize these many opinions. But from them definitely emerges one point: Bank advertising is currently a subject of careful study. Regardless of whether its mission is to sell, educate, or instill confidence, whether it is dissatisfied with its accomplishments, or whether it is to follow lines as diverse as the personalities of the institutions, the fact remains that its very restlessness offers assurance that the correct answer to the "what, where, when, why and how" question will ultimately be found.

"I like a show window dressed with one superb item of merchandise, not a sample of everything in the store. To my mind bank advertising should be along the same line."

Well Known Directors

(CONTINUED FROM PAGE 28)

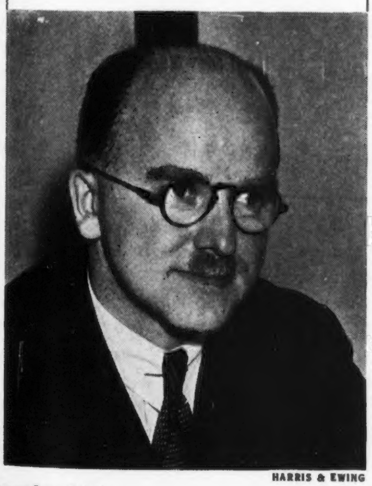
These representatives did not ask the householders for any business. They merely obtained as much information as possible regarding (1) the approximate annual income, (2) whether the householders had banking connections and if so, where and (3) whether they were carrying their accounts in Chicago and why. When this survey was completed the bank had quite an accurate picture on which to base its advertising campaign.

An example of the right and wrong way of advertising was given by two neighboring banks recently in an announcement dealing with a minimum interest regulation. The wrong bank advertised that after a certain date it would pay no interest on any account under $10. It received quite a number of complaints. The other bank advertised that it would discontinue computing interest on accounts unless the interest amounted to 50 cents during any semi-annual period. No depositor even mentioned the matter. Yet, actually, that bank was paying no interest on accounts under $45. The first bank was emphasizing $10 in the depositor's mind, whereas the second bank was emphasizing only 50 cents.

All advertising, however, is useless unless it is supported by employee cooperation.

F.H.A.

Howard Leland Smith of New York City has been appointed chief architect of the Federal Housing Administration, succeeding the late F. Leo Smith



HARRIS & EWING

Importance of the Co-Insurance

By JAMES E. FINEGAN, JR.

Insurance Division of the Mortgage Department, Brooklyn Trust Company

NO one will deny the importance of placing all conceivable safeguards around any investment which will tend to assure additional security to the investor. Trust companies and other institutions administering large amounts of real estate and mortgages must necessarily become deeply concerned in placing proper insurance to protect their investments against loss or damage caused by fire. The problem is made more serious by the expense involved in premiums paid to insurance carriers, coupled with the prevailing tendency to effect economies in the operation of real estate which endanger the safety of the investment by failure to provide proper and sufficient insurance against loss.

IMPORTANT TO INVESTOR

AS most of the fire losses today are rather small, to offset the probability of correspondingly small amounts of insurance being carried on a risk, the companies have been rather generally permitted by legislation to insert a co-insurance clause in the standard policy. This feature occupies a place of primary importance to the investor in writing adequate insurance for his own protection and brings up the obvious question of how much insurance is necessary.

Co-insurance simply means that the holder of the policy agrees to bear a certain proportion of the loss with the company. For instance, if the 80 per cent co-insurance clause is inserted in the policy, it may be readily seen that in the event of a total loss, the assured will collect only the value of his policy and must necessarily be, in effect, a co-insurer to the extent of 20 per cent. In a total loss on a building worth $10,000 where the assured or mortgagee carries 80 per cent insurance, the company will pay the face amount of the policy, or $8,000, whereas it would cost $10,000 to rebuild the building.

When inserting the 80 per cent clause, the company limits its liability and says in effect that it shall in no circumstances be responsible for a greater proportion of the loss than the face value of the policy or total of any policies in possession of the mortgagee bears to 80 per cent of the value of the building at the time of the loss. The object of the clause is to force the assured to carry sufficient insurance in order to avoid becoming a co-insurer in the policy, in addition to 20 per cent co-insurance which is really in effect the moment an 80 per co-insurance clause is attached to the policy.

It is possible to insert a 90 or 100 per cent clause in the policy, which entails the payment of correspondingly smaller rates of premium. The reason the premium is smaller is that the assured has increased the amount of his insurance and in reality approaches full coverage on the building, which is more acceptable to the insurance company. These latter clauses are more or less hazardous to the investor or the assured since very little leeway is left for a difference of opinion in appraising the value of the building.

The co-insurance clause, however, will not be operative and the company will be liable as in straight insurance when either the face value of the policy or the loss equals or exceeds 80 per cent of the value of the building. Recovery would not be effected by co-insurance.

MORTGAGEE BOUND

A MORTGAGEE, regardless of the priority of his lien, is also bound by the 80 per cent co-insurance clause and must carry, or be included in, sufficient insurance to avoid becoming a co-insurer in a loss. The face value of the mortgage has little or nothing to do with the amount of insurance necessary to afford proper protection.

This is of particular significance today, as mortgages throughout the country are affected by moratorium laws and in nearly every instance are carried as frozen assets with little or no chance of being paid off or reduced in principal. A mortgagee to whom the loss is payable under the policy may, in the event of a loss, make demand upon the insurance company that the draft be drawn solely to the order of the mortgagee and may apply the proceeds thereof in reduction of the principal amount of the mortgage. It is *dicta* that the draft may not be applied in reduction of the interest and tax arrears, or for the liquidation of insurance premium advances.

Clause

The policy of the mortgagee is not subject to contribution with other policies covering the risk which are not in his possession. This is of special significance if the owner of the building is carrying equity insurance.

AN EXAMPLE

FOR example: The holder of a $7,000 mortgage is carrying an $8,000 insurance policy on a building worth probably $10,000. Unknown to the mortgagee the owner also has an $8,000 equity policy in a different company payable to himself, with no mention of a mortgage. The policies of the owner are of course subject to contribution.

A fire loss occurs and is settled by the broker for the assured for $8,000 without the knowledge of the holder of the mortgage. Immediately and without permission of the mortgagee, the assured replaces or has contracted to restore the building to its former condition. Each insurance company has drawn its draft for $4,000, but the name of the mortgagee appears in only one policy.

When the owner has collected the draft payable solely to him, he presents the joint draft to the mortgagee for endorsement. The mortgagee may refuse to endorse and demand that the company eliminate the assured from the draft and make it payable to him alone, as he wishes to reduce his mortgage. It is then discovered that the loss was $8,000 and that the owner has cashed his draft. The mortgagee then, as he has insurance to 80 per cent of the value of the property, may make demand upon the company to draw a draft for $7,000 which is the value of his mortgage, accept same in satisfaction of the debt and assign his rights against the mortgagor to the insurance company. The latter thus has subrogation in a $3,000 first mortgage covering the property.

The importance to second and third mortgagees of carrying sufficient insurance may readily be seen. Frozen liens which have been considered valueless may under certain circumstances be paid off and assigned to insurance companies.

To the layman the fact that the loss did not exceed the insurance policy would indicate that he was fully protected. This, of course, is erroneous and very significant to institutions which have taken over real estate and have many mortgages under foreclosure. Thus if the building is not protected by sufficient insurance it will be possible only to collect a portion of the loss. If the assured is carrying a $5,000 policy on a building worth $10,000 and a $1,000 loss occurs, he will collect only $625 which is the proportion that his policy bears to 80 per cent of the value of the building. The following simple formula may be of assistance in analyzing insurance problems:

$$\frac{\text{Face value of Policy}}{80\%\ \text{value of building}} \times \text{Amount of loss} = \text{Recovery}$$

Many difficulties and much unpleasantness sometimes arise in adjusting losses when there is a question of co-insurance. This occurs particularly when the mortgagee has for various reasons demanded payment of the loss to himself. It often arises when the assured and the company are too far apart on their figures as to what the cost of restoring the damaged property would be. The companies are very much interested in co-insurance; in fact, usually the first point to be considered is whether the assured has sufficient insurance or not. Because of the disparity between opinions as to what the sound value might be, the companies are usually fairly lenient unless the discrepancy is obvious or unless the loss is difficult to settle. As the investor is seeking protection, the small saving on an insurance premium is not worth the trouble that may later attend this economy.

Individuals and institutions carrying insurance to cover their mortgages which were later foreclosed may find themselves sadly misled by continuing the same insurance in force. On the other hand, with a good mortgage it might not seem to be important as the burden would fall upon the mortgagor, who is liable for the payment of the mortgage debt. However, as the policy contains a provision that certain acts or omissions on the part of the assured will invalidate the contract and relieve the company from liability, it is very important that the policy not only be adequate but should also contain the mortgagee saving clause which says that anything the assured may do will have no effect on the mortgagee's right to recovery. Forms or riders used in common practice by brokers and banks cover this detail and should be attached to each policy, which should read exactly like the others.

Companies are not permitted to set replacement values on buildings for insurance purposes and it is wisest to afford proper coverage for the protection of the investment and effect economies elsewhere.

Interest Rates on Savings Accounts

(CONTINUED FROM PAGE 31)

deposits in cash, it earns only 4.63 per cent on 89.05 per cent of its deposits. This is because interest is paid on 100 per cent but earned on only 89.05 per cent.

Therefore the calculation must be reversed. Reversing it means that the bank is earning on its deposits 89.05 per cent of 4.63 per cent, which is 4.12 per cent. This 4.12 per cent applies to the deposits as a whole, both commercial and savings. It therefore is not the one to be considered when discussing the rate of interest to be paid on savings deposits. In such cases only the savings department should be taken into consideration.

It will be noted that this average reserve of 10.95 per cent of total deposits was the average between 26.80 per cent on the commercial deposits and 7.62 per cent on the savings deposits, which meant that the bank was earning 3.40 per cent on its commercial deposits and 4.28 per cent on its savings deposits. It would therefore be incorrect to credit the savings department with the average earning rate of 4.12 per cent.

For the same reason only the expenses pertaining to the savings department should be considered. The commercial deposits upon which no interest is paid account for much the greater portion of the operating expenses. It is therefore inaccurate to burden the interest-bearing, or savings, deposits with expenses which do not apply to them.

For example, Bank "A" is a bank of \$7,100,000 in total deposits. The savings department has 84.93 per cent of those deposits, yet there are only two people in that department. The commercial department on the other hand required the services of 14 people even though there was but 15.07 per cent of the total deposits in that department, or less than 1/5 of the savings deposits. If the operating expenses of the bank as a whole are considered the savings department would be charged with a considerable portion of the expenses of operating the commercial department.

Continuing with Bank "A" as an example, it will be noted that the operating expenses, exclusive of losses and interest, of the two departments combined amounted to 4.53 per cent of the combined deposits, whereas the income was only 4.26 per cent of those deposits. Naturally this would leave no margin with which to pay interest.

When the departments are separated, however, a very different picture is shown. The operating expenses of the savings department amounted to only .85 per cent, with earnings on the savings deposits of 4.33 per cent. This leaves a balance of 3.48 per cent available for the absorption of losses and for the payment of interest to the depositors and profit to the bank. This clearly illustrates the point that it is wrong to penalize one department with the operating expenses of another. This is a point, nevertheless, that is frequently forgotten when the subject of interest rates is discussed. Actually only the earnings and expenses applying to interest-bearing deposits should be considered.

The second important point is the method of computation. Two banks, both with an advertised rate of 2½ per cent on savings, may actually be paying very different amounts in dollars on identically the same account. The actual effective rate on a 2½ per cent advertised basis will vary from 1.95 per cent to 2.45 per cent. By effective rate is meant the actual interest paid divided by the deposits for the period.

This effective rate will vary somewhat upon the turnover of the department as well as upon methods of computation, that is, upon the length of time which is required for the total savings deposits to be entirely withdrawn and redeposited. This rate of turnover will vary from 10½ months to as high as 54 months.

Naturally the longer the turnover the nearer will the effective rate of interest be to the advertised rate. This rate of turnover, however, is not as much responsible for the difference between effective rates in banks as is the method of computation. Surveys have shown that there is a wide difference in these methods, that is, in the bases upon which interest is computed. For instance, some banks pay interest on daily balances, computing the interest each day on all deposits and withdrawals. On the other hand some banks pay no interest on any amount that has not remained constant during a three-month period, some paying only on the minimum balance during the semi-annual period. Naturally, such banks will pay considerably less on the same advertised rate than those paying on daily balances.

Even in two banks having the minimum balance regulation there might be a wide difference in the amounts actually paid. One bank might "pick-up" balances of previous periods and the other bank might not. This "pick-up balance" method means that an amount deposited on May 20 would receive no

METHODS AND OPERATIONS

EACH month BANKING publishes the best available information on current problems of administration. The purpose is to furnish timely management counsel which can readily be adapted to the needs of individual banks. Discussion is invited on subjects considered.

interest credit on July 1, but would have the two months' principal "picked-up" for interest on the succeeding January 1 payment. It is easily seen what a difference this would make in interest payments.

Another plan is practiced whereby the banks pay 2½ per cent, provided not more than two withdrawals are made during a semi-annual period. If more than two but not more than six withdrawals are made, the interest drops to 1½ per cent. If more than six withdrawals are made during the semi-annual period the depositor receives no interest whatsoever regardless of the size of his balance.

Paying interest on only the minimum balance remaining on deposit during a 90-day or six-monthly period has many supporters. The theory of interest on time deposits is that a bank can invest such deposits in longer-term, higher-yield securities than it can invest the demand deposits. Certainly this entire theory is defeated where interest is paid on deposits which have remained only a short time in the bank.

Again, it resolves itself to the axiom that deposits should earn their interest before they receive any interest. This axiom applies just as much to the individual as it does to the collective deposits. It applies to the small as well as to the large accounts. Recognizing this, some banks pay no interest below their break-even point. The break-even point is the minimum amount of money required to compensate for the expense of handling the account regardless of activity. This amount will vary with the earning and advertised interest rates. The higher the effective earning rate and the lower the advertised interest rate the lower will be the break-even point.

On the average this break-even point will be somewhere between $25 and $50. The savings accruing to the bank in dollars and cents through the discontinuance of the payment of interest on amounts below the break-even point does not total to any great sum. It does, however, save a tremendous amount of work in the computing of the interest. Somewhere between 35 per cent and 60 per cent of the number of accounts in a bank are usually below this break-even figure.

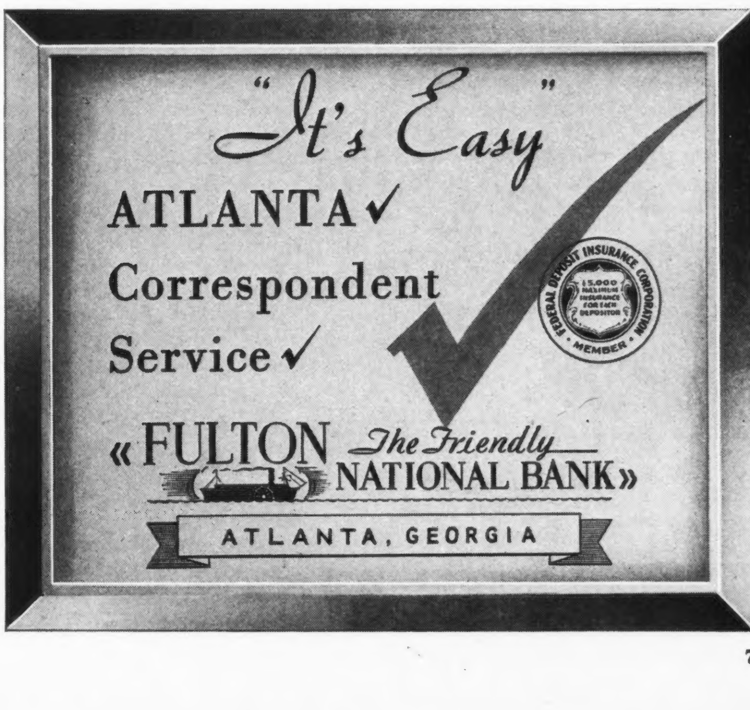
Using the figures of Bank "B" to illustrate this break-even point, it appears that the earning rate on its deposits is 4.34 per cent. Its advertised rate on savings is 2½ per cent. Therefore the bank has a margin of 1.84 per cent to provide for the expenses of the account, which were 50 cents per account per year. Dividing 50 cents by 1.84 per cent gives $27.17. This, therefore, is the amount which is required to be on deposit in order that an account may earn its own interest plus the 50-cent maintenance cost per year.

The proof of this is shown in the following table:

Ledger balance	$27.17
Reserve rate, 7.68 per cent	2.08
Balance in earning assets	$25.09
Earning rate, 4.71 per cent = earnings of	$ 1.18

Interest at 2½ per cent on $27.17	$ .68
Maintenance per year	.50
TOTAL	$ 1.18

It is suggested, then, that the important points to be considered are: (1) that they should change as the earning rates of banks change, (2) that only the earnings and expenses applying to interest bearing deposits can be considered, (3) that the methods of computation should be uniform and (4) that there should be a minimum balance below which no interest should be paid.



Private Capital in the Housing Program

ON THE face of things Peter Grimm, by formal appointment Assistant Secretary of the Treasury and by informal assignment coordinator of housing activities of the Government, has a job on his hands. Housing permeates the Government.

In all these activities there have been minor clashes between the agencies in both method and immediate objectives. Ironing out rough spots will require tact and patience but it can and doubtless will be done.

The striking fact about the housing program as a whole is that actual results lie overwhelmingly with private capital, especially the banks. It may be expected that in time, out of the hundreds of millions of dollars appropriated or allotted for home building of various sorts, the Government agencies will succeed in real accomplishment, but up to the present the Federal Housing Administration's stimulation of private initiative leads Government agencies by four, five, six or ten to one, depending upon what is counted in the comparison.

Up to November 12, for example, the administration had insured loans for modernization and repair to the amount of $207,085,000 and over half of the business was written since July. Under Title II of the Housing Act home mortgages totaling $218,554,161 had been selected for appraisal preliminary to insurance. Approximately a fourth of the latter will be rejected, but as these go others come. The significant fact about both classes of business is that approximately 70 per cent in each case is business of commercial banks while if savings and industrial banks are included the proportion runs above three-fourths.

Of the $194,877,985 put out by various credit agencies and insured by the Housing Administration for repair and modernization purposes up to November 1, national banks had furnished $82,623,036 or 42.40 per cent; state banks, $50,965,591 or 26.15 per cent; savings banks, $1,365,723, or 0.70 per cent; industrial banks, $10,331,650 or 5.30 per cent; building and loan associations, $2,050,200 or 1.05 per cent; and finance companies $47,298,590 or 24.27 per cent. The small balance was furnished by insurance companies, credit unions, production credit associations and various other agencies.

Of the mortgages insured under Title II, national banks had offered 42.70 per cent; state banks and trust companies 26.40 per cent; savings banks 5.40 per cent; savings and loan associations 16.30 per cent; mortgage companies 1.80 per cent; and other agencies 0.50 per cent. It will be noted that the proportion handled by commercial banks in each of the two classes is substantially the same, averaging about 69 per cent. Savings banks, insurance companies and building and loan associations naturally come in with a fair record in the mortgage classification, although these three agencies, usually so prominent in real estate mortgage business, had insured not much more than state banks and trust companies alone.

In the repair and modernization loans private finance companies, with industrial banks a poor second, are the only important agencies aside from the commercial banks.

Insured Charge-Offs

VARIOUS methods are employed by banks to supervise the salvaging of charged-off notes. In some institutions these notes are entirely eliminated from the loans and transferred to an auxiliary ledger under the supervision of a bank officer. When using this plan the unpaid balances are charged to the Undivided Profit account and the items are removed from the general books as assets. Employing this method it is advisable to have a separate note case for such items in order to maintain a clear record for the bank and also as an aid to the auditor.

It is, of course, important that these non-assets receive the same attention as the notes in the current file if liquidation is to proceed.

CHARGING DOWN TO $1

ANOTHER plan used successfully by our bank is that of charging down the doubtful notes to $1 each and keeping them in the current file where they will be promptly renewed and the interest added on the maturity dates. We use a sticker on the notes showing the number and the amount of each as $1 in order to designate the charged down items. The sticker is removed before a note is shown to the customer. The face amount of the note indicates the total owed.

This latter plan affords the directors an opportunity to aid in the collection of charged down notes since the reading of the bills rediscount register will prompt questions from the board on the $1 notes.

Some years ago our bank attempted to obtain collateral on doubtful paper. If a customer had no other security, assignments on life insurance policies were accepted. Some of the policies we received had cash values and others had to be cleared of debts. Before policies could be accepted under the plan it was necessary for us to analyze them in order to determine whether our bank would profit from the transaction. We had to take into consideration the age of the individual, the age of the policy, its cash value, and the amount of the premium and interest on cash value loan. We could, of course, accept the cash value of a policy and credit this amount on a borrower's loan, but such a procedure would not offer us security for the balance on the note, and might cause such policies to be dropped because of the customer's inability to pay the policy premium plus the interest on the loan to the life insurance company.

We found that many customers were carrying policies not suited to their individual needs. For example, a man with a large family had an endowment policy when more protection was needed at a cheaper rate. In such cases we exchanged the endowment policies for straight life policies at a lower rate and an increase in the amount of insurance carried. On some policies we found it possible to change the form, reduce the loan to the insurance company, and receive cheaper insurance without cost to the customer or the bank.

We took absolute assignments on the policies, which assured us that the notes of our customers which had been charged off would be collected later or at the time of death of the insured.

After the assignments were taken and the policies changed to a form that offered more protection to the individual and security to the notes, we set up on our general books this cash value in an account entitled "Cash Surrender Value of Life Insurance Policies." Credits were placed on the notes and while we did not request the cash value on the policies from the several insurance companies, we could surrender the policies at any time and receive the amount carried in the account on our books.

BANK PAYS SOME PREMIUMS

ON some of the policies which have been in force for a number of years our bank pays the premium if the customer is unable to do so. We have found that on these it is best to reduce the amount of insurance to the amount of the charged-off note since the excess insurance will have to be paid to the insured's estate at the time of his death. The cash value of policies that have been in force for 10 or 15 years will increase over a two-year period more than the amount of the premiums paid by the bank.

We have found that the method employed by our bank will make it possible for us to collect the entire debt of a customer whose note is charged off at the time of his death, or that accumulated cash values may pay off a note over a period of years. While we do not receive interest on the premiums we meet, the cash values increase more than the amount we pay out and this interest is added to the debt when renewals are taken so that the entire amount of the debt is recorded in a single note.

GEORGE R. SMITH

Banking's Reference Supplement

MARCH 1933 *to* BANKING·ACT OF 1935

The Contents

Published by BANKING

JOURNAL OF THE AMERICAN BANKERS ASSOCIATION

The Reference Supplement will be the same size as BANKING

BANKING will publish this month a practical reference supplement covering the period between March 1933 and the Banking Act of 1935. For the present, this supplement will be available only in conjunction with subscriptions to BANKING, and subscribers will be notified by letter regarding details of a special offer.

BANKING

JOURNAL OF THE AMERICAN BANKERS ASSOCIATION

Table of Advertising Contents

275,000 Staff Members

WITH 50,000,000 customers ready to testify as to their experience with bankers, we have a potential force that can mold public opinion favorably or unfavorably, according to the nature of these experiences.—ROBERT M. HANES

IN the countless contacts established daily between the country's 275,000 bank officers and employees and their 50,000,000 customers is to be found a most effective key for opening the door that leads to better public understanding in banking.

This suggestion, offered to the Constructive Customers Clinic at the American Bankers Association Convention in New Orleans by Robert M. Hanes, president of the Wachovia Bank and Trust Company, Winston-Salem, North Carolina, makes use of an approach that is available to every bank. With their customers as the key, banks may "turn the light of understanding, full force", upon themselves, their policies and their practices. By so doing they will "create a new public conception of banking" that will protect them "from future depredations against the American banking system," Mr. Hanes said.

"The impression of banking gained by the average citizen from radio and press and private gossip may be one thing," he told the clinic. "The impression of banking gained by the average customer from his actual contacts with banks and bankers can be a decidedly different thing; it all depends upon the manner in which bank staff members interpret the institution to this customer. . . .

"With 50,000,000 customers ready to testify as to their experience with bankers, we have a potential force that can mold public opinion favorably or unfavorably, according to the nature of these experiences. It is therefore obvious that the bank customer is an important key in public relations. It is likewise true that bank staff members are the key to customer opinion and respect.

"We have 275,000 bank officers and employees in this country who are in daily contact, directly or indirectly, with our customers. I wonder if we stop to realize the importance and significance of these hundreds of thousands of day-to-day, person-to-person contacts?

"We train our tellers to scrutinize checks closely and count the cash accurately and quickly. Do we, at the same time, teach them the best methods of interpreting the bank and its policies to the customers who come daily to their counters?

"We train credit officers in all of the details of statement analysis and credit procedure; they must be able to distinguish a good loan from a bad one, but have we developed their ability to decline loans in a spirit that holds business and increases customer respect?

"Perhaps the bookkeeper on the XYZ ledger does not contact bank customers during the day. He is trained to operate his machine efficiently and to file checks accurately, but when he and his wife attend the monthly meeting of their bridge club and someone around the table criticizes a local banking practice, has this bookkeeper been intelligently instructed as to the manner of his answer to this criticism?

"These are some of the questions which bank executives must ask in their own institutions and they should seek frank and candid answers. Upon bank management rests the responsibility to see that staff members are not only carefully selected and drilled in the mechanics of their jobs, but also that they are trained in the art of dealing with people.

"It is most timely and fitting that the Public Education Commission of the American Bankers Association, acting under the capable leadership of its Chairman, Frank M. Totton, and its Educational Director, Dr. Harold Stonier, has developed a definite plan for training bank employees and officers in customer relations. The favorable response of bankers throughout the country to the suggestions of this plan has proved its worth and effectiveness. In furthering this program the A.B.A. has had the active cooperation of the Financial Advertisers Association and practically all of the state associations. It is to be hoped that thousands of additional banks will adopt this plan to the end that our 275,000 staff members may become more skilled in explaining and interpreting banking procedure."

Before starting a definite program of training in customer relations, Mr. Hanes suggested that the bank executive do some careful checking of his management and policies. He must be sure that his institution and its methods are right before he can expect them to be favorably explained and sold to his customers.

The staff personnel should be carefully and regularly checked, particularly to see that those who have direct contact with the customers possess the proper personal qualifications. It must not be forgotten that a discourteous teller can destroy more good will in a day than an advertising program can build in a month.

The personnel itself, continued Mr. Hanes, must be thoroughly sold on the bank and its policies. If employees do not understand the necessity for changes they are likely to adopt a negative attitude toward them, and thus be unprepared to meet criticisms and answer questions fairly and intelligently. Staff members must also feel that their relations with the management are based upon a policy of fairness and frankness. Disgruntled employees never make good salesmen.

Fred W. Ellsworth, vice-president of the Hibernia National Bank, New Orleans, discussed constructive relations with the so-called "trouble customer" of whom there are two general classes: those who apparently are continuously satisfied with their service, and the chronic kickers.

The non-kicker makes a mistake, said Mr. Ellsworth, when he fails to complain about service that obviously is bad, or against a rank exhibition of discourtesy. If he will register a first class complaint immediately, the trouble can usually be straightened out to the advantage of customer, clerk and bank.

The customer with a permanent chip on his shoulder is ever present. Banks make mistakes and are sorry for them, for errors cause a loss of business. But the customer also makes mistakes. The banker's permanent job, Mr. Ellsworth pointed out, is to "maintain the most cordial relations with his customers by ironing out these differences, most of which, as we well know, are caused by avoidable misunderstandings."